

**LEGAL SERVICES CORPORATION**



**OFFICE OF INSPECTOR GENERAL**

**AUDIT REPORT**

**GRANTEE MONITORING**

**93-067**

**MAY 1994**





## **LEGAL SERVICES CORPORATION**

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**OFFICE OF INSPECTOR GENERAL**

May 4, 1994

### **TO THE BOARD OF DIRECTORS**

This report transmits the results of the Performance Audit of the Legal Services Corporation (LSC) Grantee Monitoring Function (OIG Project 93-067). The Office of Inspector General conducted the audit through a contract with the independent public accounting firm Cotton & Company, Certified Public Accountants. The audit was conducted in accordance with *Government Auditing Standards*, and covered the period October 1991 through December 1993.

The overall objectives were to evaluate the efficiency and effectiveness of the LSC grantee monitoring process and to determine whether the process satisfied the requirements of the LSC Act.

The audit determined that LSC was not fully effective in meeting the LSC Act's requirement to "...insure the maintenance of the highest quality of service." It also found that monitoring was inefficient, duplicative, and unnecessarily costly.

The report made 12 recommendations for improving LSC grantee monitoring. Most significant were the recommendations to: 1) establish measures and quality standards for grantee performance; 2) monitor readily measurable compliance requirements as part of the annual audit conducted by the grantees' Independent Public Accountants; 3) monitor grantee delivery performance through peer-based quality reviews; and 4) develop detailed guidelines for quality reviews and update the LSC Audit Guide for compliance testing and reporting.

We estimated that the recommended revised monitoring process would save LSC approximately \$1,601,765 annually, and its grantees approximately \$447,680 annually.

Corporation management agreed with the findings, and agreed in principle with the recommendations.

To fulfill our responsibility under the Inspector General Act of 1978 for ensuring the quality of the audit work performed, we conducted a review of the work papers for the performance audit of the monitoring function. Specifically, we:

- reviewed the audit approach and planning;
- evaluated the qualifications and independence of audit personnel;
- monitored the progress of the audit at key points;
- examined working papers and reports to evaluate compliance with *Government Auditing Standards*; and,
- performed other procedures we deemed necessary.

Based on the results of our review, the performance audit was planned, executed, and reported in accordance with applicable audit standards. Therefore, in our opinion, the audit work provides a reliable basis for the report's conclusions and recommendations, and has been adopted by the OIG.

Unless you disclose its contents sooner, we will not release the report to the public for 30 days. If you have any questions, please direct your inquiries to me or Ms. Karen M. Voellm, Assistant Inspector General for Audits at (202) 336-8843.



Edouard Quatrevaux  
Inspector General

## CONTENTS

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|          |   |
|----------|---|
| GLOSSARY | v |
|----------|---|

|               |      |
|---------------|------|
| ABBREVIATIONS | viii |
|---------------|------|

---

|  |    |
|--|----|
| Purpose  | 1  |
| Background   | 1  |
| Results in Brief   | 2  |
| Principal Findings   |    |
| Monitoring Has Improved But Is Not<br>Seen As Useful   | 3  |
| Monitoring and Reporting Policies<br>Are Not Based on Standards                                | 4  |
| Monitoring Policy Created<br>Unnecessary Work and Lengthened<br>Reporting Time                 | 4  |
| Poor Internal Quality Control  | 6  |
| Possible Objectivity Impairment  | 6  |
| Monitoring Duplicated the Work of<br>Independent Public Accountants                            | 7  |
| Failure to Establish Monitoring<br>Priorities Resulted in Questionable<br>Resource Allocations | 9  |
| Current Monitoring Benefits<br>May Not Justify The Costs                                       | 10 |
| Conclusions on Past Monitoring   | 11 |
| Qualitative Evaluations<br>Require Poverty Law<br>Experience                                   | 12 |
| Grantees Are Willing to<br>Be Reviewers and Absorb<br>Some Costs                               | 13 |

## CONTENTS (Continued)

---

|  |    |
|--|----|
| Performance Standards<br>Development Initiatives | 13 |
| Recommendations and<br>Estimated Cost Savings    | 15 |
| LSC Management's Response                        | 17 |

---

|   |   |       |
|---|---|-------|
| Appendix I  | Cost Savings are Difficult to Predict   | I-1   |
| Estimated Cost<br>Savings                                       | Key Assumptions   | I-4   |
|   | LSC's Total Costs of the Current<br>Monitoring Process                          | I-6   |
|   | LSC's Total Costs of the Revised<br>Monitoring Process                          | I-6   |
|   | Net Cost Impact to LSC of the<br>Revised Monitoring Process                     | I-10  |
|   | Net Cost Impact to LSC Grantees of<br>the Revised Monitoring Process            | I-10  |
| Appendix II   | Overview  | II-2  |
| Model for A<br>Reorganized LSC<br>Grantee Monitoring<br>Process | Monitoring Technical Compliance<br>Requirements Through An Expanded<br>IPA Role | II-6  |
|   | LSC Legal Services Delivery<br>Quality Standards                                | II-8  |
|   | Grantee Legal Services Delivery<br>Quality Policies and Procedures              | II-10 |
|   | Grantee Quality Review Standards<br>and Procedures                              | II-12 |
|   | Redefined Role for PEAR   | II-17 |
|   | Quantifiable Performance Measurement  | II-18 |

## CONTENTS (Continued)

---

|                                      |                       |       |
|--------------------------------------|-----------------------|-------|
| Appendix III                         | Objectives            | III-1 |
| Objectives, Scope<br>and Methodology | Scope and Methodology | III-2 |
|                                      | Internal Controls     | III-6 |
| Appendix IV                          |                       |       |
| Management's Response                |                       | IV-1  |

---

|              |  |       |
|--------------|--|-------|
| Exhibit I-1  | Analysis of PEAR Monitoring Costs<br>Based on Fiscal Year 1993 Expenses and<br>PEAR Time Keeping Study | I-13  |
| Exhibit II-1 | Suggested Standard Formats for LSC's<br>Grantee Quality Review Report and<br>Letter of Comment         | II-20 |





## GLOSSARY

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| <b>Attestation Engagement</b>   | As defined by the American Institute of Certified Public Accountants in its <i>Statements on Standards for Attestation Engagements</i> , an attest engagement is one in which a practitioner is engaged to issue or does issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. |
| <b>Audit Guide</b>              | <i>Audit and Accounting Guide for Recipients and Auditors</i> , issued by Legal Services Corporation in August 1976, revised June 1977, September 1979, September 1981, and January 1986. Both the 1981 and 1986 guides continue in use, at the discretion of individual recipients.   |
| <b>Compliance</b>               | As used in this report, condition of agreement or conformance with requirements of the Legal Services Corporation Act, implementing regulations, and grant terms and conditions.   |
| <b>Consultant</b>               | An independent contractor, compensated at a daily rate, employed to monitor, evaluate, and prepare monitoring reports on grantees.   |
| <b>Desk Review</b>              | A review of a grantee's annual audited financial statements and supplemental letters.  |
| <b>Grantee or Recipient</b>     | Any entity receiving financial assistance from Legal Services Corporation (LSC) through a grant or contract.   |
| <b>Grantee Quality Review</b>   | As used in this report, a review process conducted by individuals experienced in poverty law and in managing legal services programs. The review's objective is to evaluate and make qualitative judgments about the quality, effectiveness, and efficiency of legal services delivery.  |
| <b>Grantee Quality Reviewer</b> | As used in this report, an individual who possesses the requisite knowledge, experience, and skills to conduct indepth evaluations of the quality, effectiveness, and efficiency of grantee legal services delivery practices, procedures, and systems.  |

## GLOSSARY (Continued)

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| <b>Grantee Self-Assessment and Certification</b>               | As used in this report, a process wherein a grantee annually determines its extent of compliance or non-compliance with LSC's technical compliance requirements and signs a certification attesting to its compliance with these requirements. This grantee certification then becomes the focus of testing by the grantee's independent public accountant as part of the compliance testing required by LSC's (to be updated) Grantee Audit Guide.   |
| <b>Grantee Self-Inspection</b>                                 | As used in this report, a process wherein a grantee senior staff member determines the extent to which the grantee is adhering to LSC's <i>Legal Services Delivery Quality Standards</i> and its own <i>Legal Services Delivery Quality Policies and Procedures</i> . The self-inspection will be required to be conducted and documented by grantees in years in which they have not been scheduled for an LSC-conducted grantee quality review. The self-inspection will follow quality review procedures defined by LSC. |
| <b>Legal Services Delivery Quality Standards</b>               | Broadly defined rules for the measurement of quality and effectiveness with respect to the provision of legal services to the poor. (Webster's defines a standard as "something established by authority, custom, or general consent as a model or example: <i>criterion</i> ; something set up and established by authority as a rule for the measure of quantity, weight, extent, value, or quality.")  |
| <b>Legal Services Delivery Quality Policies and Procedures</b> | An individual grantee's practice-specific interpretation of how LSC's more general <i>Legal Services Delivery Quality Standards</i> are being implemented in their particular program. These specific policies and procedures will consist of the the measurable practices and reviewable operational procedures that grantee management and staff must follow on a day-to-day and case-by-case basis in order to achieve the broader LSC quality standards.  |
| <b>Monitor</b>   | The generally accepted term used within the LSC community to describe the current process employed to assess grantee compliance with the LSC Act's requirements. (Webster's defines this term as "scrutinize, check, collect data, warn, admonish, remind.")  |
| <b>Monitoring Team</b>   | A team of LSC staff or consultants with backgrounds in law, accounting, and management, who visit grantees for the purpose of monitoring.   |

## GLOSSARY (Continued)

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### **Performance Audit**

Part of the accountability process for public officials, through which auditors develop independent conclusions regarding the extent to which responsible officials are faithfully, efficiently, and effectively carrying out their responsibilities.

### **Qualitative Compliance Requirements**

As used in this report, this term denotes the more subjective, hard-to-measure compliance elements of the LSC Act and LSC's regulations, particularly those that focus on the quality, effectiveness, and efficiency of legal service delivery in relation to expectations envisioned in the LSC Act's purpose: "...insure the maintenance of the highest quality of service."

### **Quality Assurance Review**

As used within LSC, a review conducted by LSC's Office of Inspector General of the work done by independent public accountants (IPAs) who perform annual financial statement audits of LSC grantees. The review's purpose is to assess the quality of the IPA's work and determine if the work complied with applicable audit standards and LSC's Audit Guide.

### **Technical Compliance Requirement**

As used in this report, this term denotes an LSC compliance requirement that is technical, objective, and with which conformity can be easily determined.



## ABBREVIATIONS

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|               |   |
|---------------|---|
| <b>AICPA</b>  | American Institute of Certified Public Accountants          |
| <b>ABA</b>    | American Bar Association                                    |
| <b>CLASP</b>  | Center for Law and Social Policy                            |
| <b>FTE</b>    | Full-Time Equivalent  |
| <b>GAAS</b>   | Generally Accepted Auditing Standards                       |
| <b>GAO</b>    | General Accounting Office                                   |
| <b>IPA</b>    | Independent Public Accountant                               |
| <b>LSC</b>    | Legal Services Corporation                                  |
| <b>OIG</b>    | Office of Inspector General                                 |
| <b>OMB</b>    | Office of Management and Budget                             |
| <b>PCIE</b>   | President's Council on Integrity and Efficiency             |
| <b>PEAR</b>   | Office of Program Evaluation, Analysis and Review           |
| <b>SCLAID</b> | ABA Standing Committee on Legal Aid and Indigent Defendants |



**REPORT ON THE PERFORMANCE AUDIT OF  
THE LEGAL SERVICES CORPORATION'S  
GRANTEE MONITORING FUNCTION**

**OFFICE OF INSPECTOR GENERAL  
PROJECT NO. 93-067**

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**PURPOSE**

The Legal Services Corporation (LSC) is a private, nonprofit organization created by the Legal Services Corporation Act of 1974, as amended, to fund the provision of "high quality legal assistance to those who would be otherwise unable to afford adequate legal counsel." The Act requires the Corporation to monitor, evaluate, and provide independent evaluations of funded programs to ensure that the Act's provisions are carried out economically and effectively.

During the 1980s, the Corporation developed monitoring practices and procedures that were harshly criticized by grantees and legal organizations outside of LSC's domain for focusing on regulatory compliance while paying little attention to the quality of legal services provided. The monitoring process was viewed as punitive, unnecessarily disruptive, and costly.

At the request of the LSC Office of Inspector General (OIG), Cotton & Company conducted a performance audit of LSC's grantee monitoring function to determine, among other specific objectives (see Appendix III), if the current grantee monitoring process is essential (Are monitoring visits necessary?) and, if deemed essential, if monitoring can be performed more economically and less intrusively. Our audit covered the period October 1, 1991, through July 31, 1993.

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**BACKGROUND**

Each year, the Congress appropriates monies to LSC which, in turn, awards grants to 323 nonprofit organizations located throughout the United States, its possessions, and the District of Columbia. Legal assistance to the poor is provided by these 323 grantees, their sub-grantees, and *pro bono*, *judicare*, and private attorney involvement arrangements.

Prior to 1980, LSC's monitoring was carried out by nine regional offices. Teams of "peers," comprised largely of lawyers with civil rights and poverty law experience, reviewed public pleadings and talked to judges, opposing attorneys, clients, people or organizations sued, and local charitable, poverty-related organizations. They were said to have looked at "substantive" issues relating to the effectiveness with which programs were being carried out.

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LSC's early monitoring, however, was criticized by the General Accounting Office (GAO) as inadequate and ineffective. GAO also stated that LSC had not developed standards for measuring the quality of legal services provided and therefore could not "insure the maintenance of the highest quality of service."<sup>1</sup>

In response, LSC abandoned the peer review approach, closed eight of the nine regional offices, and initiated a monitoring approach that focused primarily on regulatory compliance. Monitors were described by some grantees as having little or no hands-on experience in monitoring or with the operations or types of legal services offered by the people and programs they were monitoring.

The general perception, however, is that in recent years LSC monitoring has improved. Grantees, for the most part, have begun to accept monitoring as a continuing fact of life. The most recent monitoring visits have been described by many grantees as friendlier, helpful, and professional. Moreover, despite grantee criticism, some grantees clearly needed assistance in getting their management and accounting systems in order.

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## **RESULTS IN BRIEF**

Although improved since the severest of criticisms of the 1980s, monitoring, according to grantees, continues to concentrate primarily on readily measurable regulatory compliance rather than on the quality and effectiveness of legal services. In addition, the policies and practices established by the Office of Program Evaluation, Analysis, and Review (PEAR) on monitoring and reporting do not meet standards prescribed by the Comptroller General, largely duplicate work by others, and consume scarce resources in monitoring grantees whose programs already perform well. As a result, monitoring achieves relatively little in measurable benefits when compared with its costs. Moreover, LSC's continuing inability to establish meaningful standards of performance and quality of legal services has prevented it from developing an efficient method for allocating scarce resources to monitoring grantees in greatest need of assistance. These shortfalls have contributed to inefficient and not fully effective monitoring, and to LSC's continuing inability to "insure the maintenance of the highest quality of service."

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<sup>1</sup> *Review of Legal Services Corporation's Activities Concerning Program Evaluation and Expansion*, HRD-80-103, August 28, 1980.



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The current Board of Directors is aware of many of these conditions and has begun steps to correct problems.

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**PRINCIPAL  
FINDINGS**

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**MONITORING HAS  
IMPROVED BUT IS  
NOT SEEN AS  
USEFUL**

The underlying purpose of monitoring is to ensure the maintenance of the highest quality of legal services to the poor. According to grantees, that purpose has not been achieved, because primary emphasis by monitors continues to be placed on compliance with the more technical aspects of legal and regulatory requirements. The harder-to-measure aspects of service delivery, according to grantees, have not been adequately evaluated, because the monitors lacked experience in managing legal services offices or providing legal services to the poor. As a result, while PEAR managers strongly believe their monitoring efforts successfully evaluated grantee performance and quality of service, grantees see little benefit from the monitoring visits and even less benefit from the monitoring reports. Thus, the approximately \$4.2 million LSC and grantees spent each year for monitoring has been of uncertain value.

For example, of 145 grantees responding to our request for information about their monitoring experiences, 87 percent said monitors spent considerable time on compliance with laws and regulations and little time on effectiveness and quality of service. Only 5 percent of the grantees said that monitors spent considerable time evaluating quality of service delivery, and only 8 percent said that monitors spent considerable time evaluating the effectiveness of program performance. In addition, while PEAR managers said that monitors identified significant achievements and innovative methods, only 3 percent of the grantees said that monitors spent considerable time identifying these attributes.

Major factors contributing to inefficiencies and the limited usefulness of monitoring and monitoring reports include:

- LSC's policies for monitoring and reporting, which were not based on standards prescribed by any recognized standards-setting body,
- Duplication by monitors of work done by grantees' independent public accountants (IPAs), and

- 
- LSC's continuing inability to develop performance standards for delivery of legal services to the poor.
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**MONITORING AND  
REPORTING  
POLICIES ARE  
NOT BASED ON  
STANDARDS**

LSC's policies and procedures for monitoring and reporting created unnecessary work and increased reporting time. In addition, monitors lacked adequate training and supervision, and report development lacked essential quality control to produce accurate and timely reports. As a result, instead of being helpful, reports may have been counter-productive and resulted in unnecessary costs to both grantees and LSC. These factors seem to have provided ample reason for grantees to be critical of monitors and of the monitoring process.

In our opinion, monitoring is a form of performance audit, as defined by GAO in *Government Auditing Standards*. These standards establish minimum requirements for reviewers' professional qualifications, the quality of fieldwork, and characteristics of professional audit reports. In the absence of any other recognized standards for monitoring, LSC's monitoring procedures and reporting policy should have attempted to meet these GAO standards.

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**Monitoring  
Policy Created  
Unnecessary  
Work and  
Lengthened  
Reporting  
Time**

Monitoring reports identified specific deficiencies, internal control weaknesses, and conditions of regulatory noncompliance, but did not focus on them. Instead, reports described all grantee program elements reviewed during monitoring on-site visits. Most of the elements described were in compliance and needed no management attention. This policy of reporting conditions of compliance as well as conditions of noncompliance resulted in unnecessary costs of about \$1.93 million during Fiscal Years (FY) 1992 and 1993.

On-site work needed to be adequately documented, but monitoring reports did not need to include information irrelevant to compliance or management improvement. LSC's reports, however, were rambling and unfocused. In addition to being excessively long, the reports also took more time to issue than necessary, primarily because they were replete with unnecessary and possibly irrelevant information.

For example, our analysis of 30 randomly selected reports of monitoring visits conducted between October 1, 1991, and March 31, 1993, showed that:

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- The average time to issue final monitoring reports was about 7 months and 3 weeks following on-site work.
  - The average draft report was 58 pages long.
  - The average grantee response was 26 pages long.
  - The average final report was over 60 pages long.
  - As measured by the number of issues addressed by the grantees, 76 percent of the grantees' responses to PEAR's draft monitoring reports were to correct errors and misstatements about program elements that were in compliance and needed no management attention.
  - The remaining 24 percent of the responses related to deficiencies, noncompliance and recommendations about which the grantees were often in agreement with PEAR.

The average cost per monitoring assignment was approximately \$30,021--about \$19,807 incurred directly by LSC monitors and consultants and about \$10,214 by grantees (see Appendix I). Of these costs, an average of about \$9,072 per assignment represented the combined cost for draft report preparation, grantee responses to reports, and report completion. If the distribution of grantee responses is an accurate reflection of the allocation of resources spent in writing and responding to the reports, then an estimated 76 percent of this cost, or about \$6,895 per average assignment, related to the unnecessary reporting of conditions of compliance. LSC issued about 11.7 monitoring reports per month. Consequently, LSC and grantees incurred about \$1.93 million in unnecessary costs for the approximately 280 monitoring reports issued during FYs 1992 and 1993.

A PEAR official stated that reporting conditions of compliance as well as noncompliance was necessary to evidence the extent of their monitoring efforts.

In addition, about a third of the grantees responding to our survey stated that they preferred long, detailed reports. One grantee said that long reports helped in understanding the monitors' thought processes, while another said the reports were useful in obtaining contributions. Most grantees (about two-thirds), however, preferred short reports. The previous director of PEAR stated that a new report format had been developed that addressed most of our concerns.

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Reporting conditions of compliance does not, in itself, violate *Government Auditing Standards*. From an economy and efficiency standpoint, however, the issuance of voluminous draft reports, requiring equally voluminous grantee responses to identify errors about information that was of little or no use toward improving grantee compliance, was wasteful and counter-productive. Although the new report format may result in shorter reports, and therefore be an improvement, the policy of reporting conditions of compliance has not changed, and this is wasteful and unnecessary. Further, the needs of those grantees who prefer long, detailed reports can be met effectively through other means without sacrificing economy and efficiency.

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**Poor Internal  
Internal  
Quality  
Control**

Because on-site visits attempted to cover an expansive range of legal and regulatory compliance requirements in a short period of time, monitors had little opportunity to corroborate or verify the information obtained. Thus, they made numerous errors in their descriptions of grantee programs. LSC, however, had no reliable internal quality control procedures in place--including monitor training,<sup>2</sup> on-site monitor supervision, workpaper preparation and review, gathering and testing of competent evidential matter, or a report indexing and referencing process--to assure that draft reports were accurate. These are essential elements of GAO standards. Instead, LSC expected and depended on the grantees to identify errors in the draft monitoring reports.

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**Possible  
Objectivity  
Impairment**

In addition, GAO standards require that the independence and objectivity of individuals conducting performance reviews not be impaired. We questioned PEAR's non-management monitoring staff about the current process' management and approach. A significant number of the 21 staff monitors we questioned said they believed their independence and objectivity might have been impaired because of:

- Preconceived ideas (that either they or PEAR management had) toward individuals, groups, organizations, or objectives of a particular program that could bias the review. (43 percent)

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<sup>2</sup> The last monitor training provided by PEAR was conducted in January 1992. No training funds have been allocated to monitor training since that date.

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- Biases (either theirs or PEAR management's), including those induced by political or social convictions. (43 percent)
  - Pressure, perceived or real, exerted by LSC to achieve a predetermined or preconceived outcome. (43 percent)
  - Unreasonable restrictions on the time allowed to competently complete a review. (24 percent)
  - Influences that jeopardized continued employment for reasons other than competency. (20 percent)
  - The organization's authority to overrule or influence the monitor's judgment as to the appropriate content of a monitoring report. (43 percent)

Objectivity, independence, and report accuracy are fundamental requirements of *Government Auditing Standards* as well as of any generally accepted performance criteria.

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**MONITORING  
DUPLICATED  
THE WORK OF  
INDEPENDENT  
PUBLIC  
ACCOUNTANTS**

About half of the recommendations made as a result of LSC monitoring dealt with accounting, financial management systems, and internal controls--areas covered in annual audits by the grantees' IPAs. This duplication was costly and, to the extent that IPAs' work was competent and met prescribed auditing standards, unnecessary.

The following tables, developed from our random sample of 30 monitoring assignments, illustrate that the monitors reviewed the same audit areas as the IPAs. For example, our comparison of findings reported by IPAs and findings reported by monitors in the "fundamental criteria"<sup>3</sup> categories showed that 76.6 and 80.7 percent, respectively, of IPA and monitor findings were in the same categories:

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<sup>3</sup> The elements were based on LSC's fundamental criteria as published in the 1986 *LSC Audit and Accounting Guide for Recipients and Auditors* (Audit Guide)--the most recent guide available to grantees, IPAs, or LSC monitors.

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| <u>Area Covered</u>    | <u>% of Total Findings</u> |                 |
|------------------------|----------------------------|-----------------|
|                        | <u>IPAs</u>                | <u>Monitors</u> |
| Cash Disbursements     | 14.2                       | 15.5            |
| Financial Planning     | 13.3                       | 10.7            |
| Inventory/Fixed Assets | 11.2                       | 10.2            |
| Bank Accounts          | 11.2                       | 9.6             |
| Payroll                | 10.8                       | 4.8             |
| Compliance             | 10.1                       | 20.3            |
| Management Reports     | <u>5.8</u>                 | <u>9.6</u>      |
| Total                  | <u>76.6</u>                | <u>80.7</u>     |

Similarly, findings in internal control (management control) categories showed that 92.4 and 96.3 percent, respectively, were in the same categories:

| <u>Area Covered</u>     | <u>% of Total Findings</u> |                 |
|-------------------------|----------------------------|-----------------|
|                         | <u>IPAs</u>                | <u>Monitors</u> |
| Policies and Procedures | 30.5                       | 21.4            |
| Management and Board    |                            |                 |
| Safeguards              | 23.2                       | 24.1            |
| Inadequate Supporting   |                            |                 |
| Documentation           | 21.1                       | 43.3            |
| General Ledger          |                            |                 |
| Accounting              | <u>17.6</u>                | <u>7.5</u>      |
| Total                   | <u>92.4</u>                | <u>96.3</u>     |

We noted a significant difference in the number of findings reported. For example, in our random sample of 30 grantees, IPAs reported 52 findings, versus 187 findings reported by monitors. A significant portion of this difference is attributable to fundamentally different reporting requirements: IPAs apply generally accepted auditing standards (GAAS), promulgated by the American Institute of Certified Public Accountants (AICPA), or *Government Auditing Standards*, established by the GAO. The LSC monitors do not apply these standards. Under these standards, the IPAs report only "material" findings, whereas LSC monitoring reports contain all findings regardless of materiality or significance.

Grantees visited during our audit stated that they gain little from monitoring reports toward improving their accounting and financial management that they did not already receive from IPA reports.

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PEAR management as well as several grantees, however, expressed reservations about heavy reliance on IPA work, particularly in the area of compliance testing.

We do not question the sincerity of these concerns. We think, however, that they highlight two key problems that need to be addressed and corrected so that greater reliance can be placed on IPA work:

1. IPAs are required to use LSC's outdated audit guides (either a 1981 or a 1986 version). A new audit guide is needed that incorporates current *Government Auditing Standards* and current program compliance requirements, including any compliance requirements deemed mandatory for IPA attestation, as well as the attestation procedures to be followed.
2. When IPAs are found to be unqualified or in noncompliance with appropriate audit standards, their work must be judged deficient and should not be accepted by LSC or the grantees. Appropriate actions are available and should be taken regarding IPAs who perform substandard work.

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**FAILURE TO  
ESTABLISH  
MONITORING  
PRIORITIES  
RESULTED IN  
QUESTIONABLE  
RESOURCE  
ALLOCATIONS**

LSC has not developed a grantee ranking method for use in identifying grantees in greatest need of assistance or grantees whose programs are known to provide high-quality and effective legal services. Such a ranking method is fundamental to a sound resource allocation process. Instead, LSC has routinely scheduled monitoring visits based on a calendar time interval--about every 28 months during our audit period. As a result, LSC had no way of assessing if about 36 percent of monitoring assignments done during our period of audit and costing an estimated \$3.0 million might have been deferred significantly or avoided entirely for one or more cycles.

For example, during FY 1993, LSC completed about 140 monitoring reports. During this period, it issued 90 corrective action notices. By logical deduction, the other 50 grantees were being well-managed, and either had no reportable problems, or their problems were so minor in nature as to require no corrective action notices. While we cannot conclude that these 50 assignments should not have been conducted, we believe that LSC needs a system that positively identifies grantees already performing at a high compliance level as well as those with the highest probability of performing at a low compliance level and therefore needing corrective actions and specific attention.

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At an average cost per monitoring episode of about \$30,021, LSC and grantees incurred monitoring costs of about \$1.5 million during FY 1993, or about \$3.0 million for the 2-year period of audit, that did not result in issuing corrective action notices. Significantly higher benefits might have been achieved had these resources been applied to programs that needed help.

Until LSC develops a set of quantifiable performance measures or indicators with which to assess each grantee's performance, efforts to more efficiently allocate resources to monitoring grantees in greatest need of corrective action will continue to be severely hampered.

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**CURRENT  
MONITORING  
BENEFITS MAY  
NOT JUSTIFY  
THE COSTS**

The annual monitoring cost to LSC and its grantees (about \$4.2 million) appeared to be disproportionately high compared to the benefits derived. LSC, however, has no measurement criteria by which to judge the value or benefits derived from monitoring. PEAR provided the following as evidence of benefits resulting from the current monitoring process:

- \$307,000 in recovered costs and penalties from 22 grantees over a 2-year period,
- The issuance of corrective action notices to 90 grantees during FY 1993, and
- Technical assistance provided by monitors to grantees.

Although LSC grantee monitoring is a requirement and should not be justified on a cost-benefit basis, the recovered costs represent a monetary return on investment of only about 3.65 percent over the 2-year period. Benefits derived from the corrective action notices depend largely on the substance and materiality of the recommendations made, most of which can be assessed only judgmentally. PEAR management believed that these corrective action notices led to significant improvements in grantee management and operations. Some grantees, however, characterized them in less positive terms--one grantee called them "silly."

Technical assistance is not a direct requirement of the monitoring process. Further, the value of technical assistance was hard to measure. Nevertheless, during some monitoring assignments, monitors who possessed specific technical knowledge and skills provided direct advice and assistance that was much appreciated by grantees. PEAR



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provided us with a list of suggestions and assistance given by monitors during FY 1993. Correspondence from some of these grantees to LSC expressed sincere gratitude for this kind of help. The grantees who received technical assistance also gave higher than average ratings of monitors in response to our survey questionnaire. Most grantees, however, rated the usefulness of the monitoring reports as either fair, poor, or unacceptable.

While these indications of success were isolated, they demonstrate the potential value of maintaining a cadre of highly skilled individuals at LSC capable of providing timely technical support to grantees, as needed. Such a technical assistance function, if established, should be continued contingent upon full utilization and documented accomplishments. The technical assistance function should be independent of the monitoring and evaluation function in order to avoid compromising the independence and objectivity of future compliance monitoring efforts. Compliance monitoring should, however, be linked to the technical assistance function in such a way as to provide a means of identifying grantees and topic areas in greatest need of technical assistance.

Despite the absence of measurement criteria, we think the benefits listed above are insufficient to warrant the high cost of monitoring as currently carried out. This high cost, coupled with the duplicated IPA work, high concentration on readily measurable compliance requirements, and monitoring reports of poor quality and minimal use, lead us to conclude that on-site monitoring visits are not needed for this type of compliance testing.

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#### **CONCLUSIONS ON PAST MONITORING**

Accomplishments from past monitoring efforts are unquestionably difficult to measure. Perhaps past monitoring has made grantees aware of the LSC Act's compliance requirements, and has encouraged, if not forced, grantees to attempt to operate within those parameters. Within that context, monitoring has served a useful purpose, albeit at a high cost. It is now appropriate to move on to a more efficient and more effective approach to monitoring and evaluation.

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**QUALITATIVE  
EVALUATIONS  
REQUIRE POVERTY  
LAW EXPERIENCE**

Although grantees were appreciative of the changed tone and more professional demeanor demonstrated in recent monitoring visits, 78 percent who responded to our survey said that the last LSC monitoring team did not possess the experience and necessary qualifications to evaluate the quality and effectiveness of their legal services.

Eighty-eight percent of grantees who responded said that the Act's requirement of "maintenance of the highest quality of service" could be somewhat to greatly improved through a quality review process carried out by their peers, and 92 percent said face-to-face feedback would help improve their programs. The experience and qualifications that grantees think reviewers should have to carry out these reviews, are:

|                                   | <u>% of<br/>Responses</u> |
|-----------------------------------|---------------------------|
| Managing a legal services office  | 89                        |
| Currently in poverty law          | 84                        |
| Past poverty law experience       | 84                        |
| Accounting systems expertise      | 70                        |
| Experience other than poverty law | 21                        |
| Managing a private practice       | 17                        |

Individuals who grantees believe possess the experience and qualifications necessary, in order of priority, are:

|                                   | <u>% of<br/>Responses</u> |
|-----------------------------------|---------------------------|
| Executive directors               | 89                        |
| Senior legal services attorneys   | 87                        |
| CPAs                              | 48                        |
| Experienced poverty law advocates | 47                        |
| Legal services managers and staff | 41                        |
| Private consultants               | 36                        |
| LSC fiscal monitors               | 29                        |
| LSC legal monitors                | 11                        |

We agree with grantees that quality reviewers with specific, recent, and relevant poverty law experience should be better able to assess the quality and effectiveness of legal services providers than LSC's staff monitors. This conclusion is predicated on the presumption, however, that quality reviews will assess quality and effectiveness against a set of performance standards that LSC has yet to develop.

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**GRANTEES ARE  
WILLING TO BE  
REVIEWERS AND  
ABSORB SOME  
COSTS**

To assess the feasibility and approximate cost of a quality review approach, we asked grantees if they would be willing to both participate as reviewers and share part of the costs. Eighty-five percent of the respondents said that they would be willing to provide quality reviewers. Only 4 percent said they definitely did not want to provide reviewers.

In addition, 78 percent of the grantees said that they would be willing to absorb at least part of the cost of participation as reviewers.

| <u>Costs Grantees<br/>Would Be Willing to Absorb</u>      | <u>% of<br/>Grantees</u> |
|---|--------------------------|
| Salary for preparation and<br>on-site quality review work | 37                       |
| All cost categories negotiable                            | 24                       |
| None of the costs   | 22                       |
| Salary only for preparation                               | 16                       |
| All salary and travel costs                               | 1                        |

The level of interest shown by grantees in the peer quality review approach is encouraging. Grantee experience and expertise should result in improved effectiveness of evaluations of service quality and performance. Grantee willingness to share part of the cost should help to assure a more cost-effective and economical process. As discussed in more detail in Appendix I, grantee willingness to participate and absorb some of the costs is probably indicative of a perception that the peer quality process will benefit grantees in at least two ways. Participants in LSC's comparative demonstration project have reported that the reviewers have gained as much through the process as the grantees being reviewed. Further, it is highly possible that grantees anticipate that the reduced costs associated with a less intrusive monitoring process will more than offset the costs of participating in the process as periodic reviewers.

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**PERFORMANCE  
STANDARDS  
DEVELOPMENT  
INITIATIVES**

LSC efforts to develop and test performance standards by which to assess the quality of legal services have only recently begun. In FY 1992, Congress appropriated funds to "conduct comparative demonstration projects to study, under appropriate standards and criteria, the use of competition in providing effective and efficient legal services of high quality."

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Through combined efforts, LSC, National Legal Aid and Defenders Association, and the Project Advisory Group obtained inputs from a variety of sources and agreed upon a project design for a Comparative Demonstration Project. Recognizing that no accepted measurable standards for legal services performance existed, the key concept in carrying out this effort was assessment by experienced, qualified peer reviewers. This project appears to have wide support both inside and outside LSC.

Five performance areas were identified for evaluation:

- Effectiveness in meeting the most pressing needs of the target community.
- Effectiveness of legal representation and other program activities intended to benefit the low-income population in its service area.
- Access and utilization by the target community.
- Effectiveness of the program operationally and institutionally.
- Efficiency.

The project's evaluation criteria specifically cite the American Bar Association's (ABA) "aspirational" standards of performance,<sup>4</sup> but go a step further by attempting to develop, and quantitatively grade, measures of performance.

Although an assessment of the project was beyond the scope of our audit, the design of this project and the evaluation approaches incorporated appear viable and well planned.

In December 1993, the Provisions Committee of LSC's Board of Directors instructed LSC staff to prepare proposed procedures that reflect "principles regarding evaluation, technical assistance, monitoring, and complaint investigation" that, among other important aspects, require:

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<sup>4</sup> *Standards for Providers of Civil Legal Services to the Poor*, Standing Committee on Legal Aid and Indigent Defendants, August 1986, American Bar Association.

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- Performance criteria for evaluation and monitoring--using the Comparative Demonstration Project as a starting point,
  - On-site visits to be based primarily on a peer review model,
  - Evaluation and monitoring to be used to identify how to assist grantees, and
  - Evaluation and monitoring to be used to recognize programs that perform at a high level.

These are all positive actions that are in agreement with the needs and desires of the majority of grantees. Further, using evaluation and monitoring to identify grantees in need of assistance as well as those programs already performing at a high level should respond to this report's observation that the lack of such identification has led to potentially unnecessary, inefficient, and ineffective monitoring.

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**RECOMMENDATIONS AND  
ESTIMATED  
COST SAVINGS**

To improve efficiency and effectiveness in meeting LSC's LSC's legislative mandate on monitoring and evaluation, we recommend that LSC require PEAR to:

1. Establish a performance measurement system to continuously identify programs in greatest need of assistance and invest resources disproportionately toward improving those programs (rather than continuing to monitor on a regular, fixed calendar schedule). Continue and complete efforts to define quantifiable grantee performance indicators.
2. Establish *legal services delivery quality standards* that consist of broadly defined rules for measuring the quality and effectiveness of legal services provided to the poor.
3. Develop proposed regulations for LSC grantees to follow in defining and documenting their individual, practice-specific interpretation of how LSC's *legal services delivery quality standards* are being implemented in their programs, and in performing periodic self-assessments on how well these standards are being met.

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4. Carefully review and separate LSC's compliance requirements into two categories:
    - Requirements that are technical, objective, and relatively easy to measure (technical compliance requirements), and
    - Requirements that are qualitative and thus require poverty law experience to assess and report on credibly (qualitative compliance requirements).
  5. Monitor LSC's technical compliance requirements through an expanded IPA role to test and report on compliance with these requirements.
  6. Monitor LSC's qualitative compliance requirements through a peer-based grantee quality review process. This grantee quality review process should focus on-site visits on determining the extent to which grantees (a) have adequately interpreted LSC's *legal services delivery quality standards* in their own policies and procedures, (b) are fully complying with their own *legal services delivery quality policies and procedures*, and (c) evidence high quality and effective legal services in their work products. These grantee quality reviews should be conducted by individuals experienced in poverty law and in managing legal services programs.
  7. Develop detailed guidelines and procedures for conducting grantee quality reviews. These guidelines and procedures should mandate that reviews are to be conducted in accord with the performance standards contained in *Government Auditing Standards*.
  8. Define and publicize grantee quality reviewer qualifications and compile a database of qualified reviewers.
  9. Develop a simplified standard grantee quality review report format and require that final grantee quality review reports are completed no later than 30 days following completion of an on-site grantee quality review.
  10. Restructure its organization and functions to implement and manage the restructured compliance monitoring process.

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11. Revise, update, and submit to LSC's inspector general for approval a new LSC grantee audit guide to be issued as soon as possible and mandatory for use in IPA audits of LSC's grantees. It should include the requirement that the audits be conducted in accordance with *Government Auditing Standards* and contain detailed and specific requirements for compliance testing and reporting.
  12. Modify its existing IPA report desk review process to focus on the expanded IPA compliance monitoring role.

A conceptual framework on how we envision LSC and PEAR implementing these recommendations is provided in Appendix II.

Based on accounting data provided by LSC's comptroller, LSC spent \$2,772,934 on grantee monitoring during FY 1993. This included LSC personnel costs, allocated PEAR indirect costs, consultant costs, and travel costs. Our estimates of the expected costs of the various components of a recommended revised monitoring process (the recommended process is described in Appendix II) yielded an estimated total annual cost to LSC of \$1,171,169. We estimate that the resulting LSC cost savings from adopting and implementing the recommended revised process will be approximately \$1,601,765 per year.

In addition to these LSC cost savings, we estimate that the revised process will, if implemented, result in aggregate, net, annual cost savings to LSC's grantees of about \$447,680.

Appendix I contains a detailed discussion of the assumptions underlying these cost savings estimates.

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**LSC MANAGEMENT'S RESPONSE**

LSC management stated that it agreed with the report's findings and, in principle, with its recommendations. The detailed response to the draft report is in Appendix IV.





## ESTIMATED COST SAVINGS

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### COST SAVINGS ARE DIFFICULT TO PREDICT

Predicting the cost of a revised monitoring process is difficult, because of the many variables involved. These variables include:

- Number of reviewers needed per quality review.
- Length of on-site quality review visits.
- Extent of quality reviewer training needed.
- Exact division of compliance requirements between technical and qualitative issues.
- LSC's success in developing legal services delivery quality standards.
- Grantees' success in interpreting and converting the standards into objective policies and measurable quality control procedures.
- Extent to which grantees will be willing to absorb or donate some of the costs of participating in the review process as review team members.
- Extent to which grantees will seek or not seek additional LSC funding to cover the costs of an expanded IPA role.
- Extent to which grantees will recognize and pass along to LSC the savings resulting from a less intrusive quality review process.

On the other hand, we believe that certain functions or categories of costs incurred in the current monitoring process will be significantly reduced or eliminated altogether. Following are the types of changes that we believe will result in cost savings if the recommended restructuring of the monitoring process (see Appendix II for a detailed description of the recommended restructuring) is carried out:

- More straight-forward reports.
- Reduced size of on-site quality review teams.

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- Elimination of fiscal and administrative monitoring duplication.
  - Need for fewer consultants.
  - Reduced travel costs.
  - Less expensive pre-visit preparation.
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**Estimates  
Assume  
Sweeping  
Changes**

The estimates presented in this appendix assume that the current monitoring process will be discontinued entirely and replaced with a completely revised monitoring structure.

Calculating the estimated or potential cost savings to LSC that will result from a revised compliance monitoring structure was a two-step process. First, we determined the annual cost to LSC of the current monitoring structure. Next, we estimated (using conservative assumptions about various aspects of the process) the annual costs to LSC of the various components of the recommended revised monitoring structure. Subtracting the estimated total annual cost to LSC of the revised monitoring process from the annual cost to LSC of the current process yielded the anticipated cost savings.

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**LSC Net Cost  
Savings**

According to accounting data provided by LSC's comptroller, LSC spent \$2,772,934 on grantee monitoring in FY 1993. This included LSC personnel costs, allocated PEAR indirect costs, consultant costs, and travel costs. Our estimates of the expected costs of the various components of our recommended revised monitoring process yielded an estimated total annual cost to LSC of \$1,171,169. The resulting LSC net cost savings from adopting and implementing the recommended revised process will be approximately \$1,601,765 per year.

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**Grantee Costs  
and Net Cost  
Savings**

It is important to note that this predicted \$1,601,765 cost savings is computed from an LSC perspective. There will be additional costs and offsetting cost savings to LSC's grantees, as well. For example, grantees will incur some costs in performing periodic self-assessments on how well they are meeting their own practice-specific quality standards. Because these self-assessments are an integral part of grantee operations and management, we do not consider them as "additional" costs. On the other hand,

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although grantees have expressed a willingness to participate as reviewers and absorb part of the associated costs, these grantees will nevertheless incur a cost for providing this time. Again using conservative assumptions about the new process, we estimated that the aggregate cost to LSC grantees of providing reviewers will be approximately \$520,000 per year.

On the other hand, we estimated that grantees will save, in the aggregate, approximately \$967,680 producing a net cost savings of \$447,680 per year, as a result of the change to a simplified, less-intrusive, and more effective monitoring process.

We did not combine the LSC costs and savings with the grantee costs and savings, because LSC will likely not have to fund the additional grantee costs and will not benefit directly from the grantee savings. (This assumes that grantees will not attempt to seek additional LSC funding as a *quid pro quo* for agreeing to provide quality reviewers and that LSC's grantees will not readily recognize or be willing to pass along to LSC the cost savings that will result.)

Finally, we did not attempt to estimate certain additional, less tangible savings that we think will be realized if the recommendations of this audit are implemented. These additional savings will stem from the following factors:

- Improved grantee performance resulting from the increased emphasis on quality and effectiveness of legal services.
- Improved relations between LSC and grantees resulting from the less intrusive approach to compliance monitoring.
- More efficient use of technical assistance resources due to the use of quantifiable performance indicators to identify grantees in greatest need of assistance.

Although these additional cost savings cannot be quantified, it is very possible that they will be considerably more significant than the cost savings that we did attempt to estimate.

The balance of this appendix presents the following:

- Key assumptions.

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- LSC's total costs of the current monitoring process.
  - LSC's total costs of the revised monitoring process.
  - Net cost impact to LSC of the revised monitoring process.
  - Net cost impact to LSC grantees of the revised monitoring process.
- 

**KEY  
ASSUMPTIONS**

In recommending sweeping changes from the past monitoring methods, it is necessary to make several assumptions about how the new process will be carried out and about how grantees will respond to these changes. Following are the key assumptions that we have made in these areas and how we expect that these assumptions will affect the resulting costs.

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**Reduced  
Monitoring  
Team Size**

If current report contents and findings are an accurate reflection of the current monitoring process' on-site workload allocation, then it appears that 75 percent or more of on-site effort is devoted to accounting and administrative compliance issues. (Grantee feedback regarding the concentration of current monitoring efforts supports this estimate.) It is reasonable to assume, therefore, that expanding the IPA role to include testing of technical compliance matters, eliminating the duplication between IPA and LSC monitoring work, and increasing the emphasis on qualitative matters will result in a net 50-percent reduction in on-site monitor hours. Consequently, we think that the quality review process can be accomplished with about half as large a team as used under the current monitoring process.

Based on a random sample of monitoring episodes conducted during our audit period, the average monitoring team consisted of 4.9 people who spent an average of 4.6 days on site. Our cost estimates, therefore are based on an average team size of 2.5 people and an average on-site duration of 5 days.

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**Frequency and  
Number of  
Grantee Quality  
Reviews**

If a baseline cycle of requiring regular quality reviews once every three years is established, then approximately 110 regular reviews would be conducted per year. Some grantees may be required to have accelerated reviews (in

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cases where significant quality deficiencies are found, for example). Hence, it is reasonable to assume that between 110 and 150 reviews per year would be conducted. We estimate that approximately 20 grantees per year (about 18 percent of those reviewed) will have quality deficiencies significant enough for LSC to require an accelerated (i.e. the following year) review. Consequently, our estimates are based on an average of 130 grantee quality reviews per year.

During the 22-month period from October 1991 through July 1993, PEAR conducted 251 regular monitoring assignments and 27 followup assignments. Based on PEAR estimates of the average duration and team size for a followup visit, a followup visit consumes approximately one-fifth of the resources of a regular visit. Hence, we estimated that PEAR conducted the equivalent of about 140 regular monitoring visits per year.

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**Grantee-  
Provided  
Quality  
Reviewers**

Of the 145 grantees responding to our survey, 85 percent indicated that they will be willing to provide personnel to conduct quality reviews, and 78 percent said that they will absorb some or all of the associated costs. Thirty-seven percent indicated that they will be willing to absorb the labor costs of both preparation and on-site review work. We think that it is reasonable to assume that LSC will be able to enlist the support of a sufficient number of grantees to staff the majority of quality reviews with grantee personnel and grantee-donated labor costs. We estimate that consultant reviewers will still be needed to staff some of the review teams. Our cost estimates are based on the assumption that 80 percent of the grantee quality reviews will be staffed with grantee-provided reviewers. As the process evolves and becomes generally accepted by grantees, it is likely that the pool of grantee-provided reviewers will expand.

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**Effect of  
Grantee Costs  
And Savings**

A key assumption is that the grantees participating in the process will not attempt to increase their LSC grant budgets in return for this participation. We think that this is a reasonable assumption to make for two reasons. First, a grantee willing to provide personnel to serve as quality reviewers will likely recognize that such participation will yield benefits to that grantee's own organization by giving the reviewers an intensive exposure to LSC's qualitative compliance requirements and by providing an exposure to other organizations' methods of operation. Second, as noted previously, grantees may recognize that

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they will realize significant cost savings as a result of both the reduction in the intrusiveness of the monitoring process and the elimination of the duplication between the IPA audit work and the monitoring work. (We have assumed, however, that grantees will not readily recognize or be willing to pass these savings along to LSC during the budgeting process.)

Finally, we assume that grantees will readily recognize and seek increased LSC funding to cover the increased costs connected with the expanded IPA audit process.

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**LSC'S TOTAL  
COSTS OF THE  
CURRENT  
MONITORING  
PROCESS**

Our analysis (see Exhibit I-1) of PEAR's FY 1993 expenses indicates that the current annual cost to LSC of the existing monitoring process is summarized as follows:

|             | PEAR Direct<br>Cost Objective | LSC Labor<br>and<br>Indirect<br>Costs | Consulting<br>Costs | Travel<br>Costs  | Total<br>Costs     |
|-------------|-------------------------------|---------------------------------------|---------------------|------------------|--------------------|
| Monitoring: |                               |                                       |                     |                  |                    |
| Pre-visit   |                               | \$ 392,684                            | \$ 55,872           |                  | \$ 448,556         |
| On-site     |                               | 612,591                               | 279,362             | \$412,749        | 1,304,702          |
| Reporting   |                               | <u>907,931</u>                        | <u>111,745</u>      |                  | <u>1,019,676</u>   |
| Total       |                               | <u>\$1,913,206</u>                    | <u>\$446,979</u>    | <u>\$412,749</u> | <u>\$2,772,934</u> |

The total cost to LSC of the current monitoring process is therefore \$2,772,934. Our expectation is that none of these costs will be incurred if the recommended, revised process is implemented. Instead, there will be other costs involved in overseeing the expanded IPA role and administering the grantee quality review process.

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**LSC'S TOTAL  
COSTS OF THE  
REVISED  
MONITORING  
PROCESS**

The estimates needed in determining LSC's total revised compliance monitoring cost fall into the following categories:

- Consultant costs
- Travel costs
- Additional IPA audit costs
- Additional grantee costs to support the IPA audits

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- Additional costs of LSC desk reviews of IPA reports
  - LSC administration of the quality review process

Our estimates of these costs are explained in the following sections.

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**Consultant Costs**

Based on the assumption that an average of 130 reviews per year will be needed, consultant costs are estimated as follows:

- 130 reviews per year with an average team size of 2.5 reviewers will require 325 reviewers.
- If 20 percent of these reviewers are paid consultants, and a quality review takes 8 days to complete, at an average consultant daily rate of \$250,<sup>5</sup> then the needed consultant cost would be \$130,000 [325 reviewers x 20% x 8 days x \$250/day].

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**Travel Costs**

Based on the assumption that an average of 130 reviews per year will be needed, travel costs are estimated as follows:

- Per PEAR's FY 1993 budget, the average travel cost per review was \$2,948 [\$412,749 divided by 140 monitoring episodes].
- If the review team size is reduced by 50 percent, then the travel costs per review would be reduced correspondingly.
- Hence, the total travel cost associated with 130 reviews should be approximately \$191,620 [\$2,948 per review x 50% x 130 reviews].

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**Additional IPA Audit Costs**

The expanded IPA role will result in increases to the cost of IPA audits. We estimate that the time needed for expanded compliance testing will be approximately 12 hours per audit. At an average labor cost of approximately \$50 per hour, this will result in an increase of \$600 per

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<sup>5</sup> LSC's current consulting agreements provide for daily rates ranging from \$150 to \$250 for a maximum 8 days per monitoring assignment. To be conservative, we have estimated these costs using the highest consultant rate currently being paid by LSC for monitoring.

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audit. These expanded compliance audits will be conducted annually, resulting in additional costs of \$193,800 per year [\$600 x 323 grantees].

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**Additional  
Grantee Costs  
to Support  
the IPA  
Audits**

The expanded IPA role will also result in increases in the cost of grantee participation in these audits. Additional grantee effort will be needed to support the expanded audit work. We estimate that grantee document gathering to support the IPA work will consume about 25-percent of the effort required by the IPAs to review and test the information. Hence, additional grantee costs to support each audit would be approximately \$150 per audit [\$600 x 25%] or about \$48,450 for all 323 grantee audits per year.

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**Additional  
Costs of  
LSC Desk  
Reviews of  
IPA Reports**

We estimate that the cost of the desk reviews of grantee audit reports will increase by about \$150 per report, or about \$48,450 for all 323 reports. (As shown in Exhibit I-1, LSC currently spends approximately \$120,577 on desk reviews; our \$48,450 estimate would be more than a 40-percent increase.)

We do not think that the expanded IPA role will result in an increase in the cost of Office of Inspector General quality assurance reviews of IPA workpapers. Any additional costs of reviewing the additional compliance testing should be offset by the effect of improved IPA work resulting from adherence by the IPAs to the updated audit guide.

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**LSC Admin-  
istration of  
Quality Review  
Process**

Costs of overseeing the new quality review process are the most difficult to predict. These costs will relate to a variety of developmental and transitional tasks as well as ongoing management and oversight functions. Following is a list of the key functions that will be needed and estimates of the effort [in terms of full time equivalent (FTE) personnel] required for each function. We have estimated both the initial developmental effort required as well as the ongoing or maintenance effort that will be needed on an annual basis.



| <u>Administrative Task Area</u>   | <u>FTEs</u>                 |                       |
|---|-----------------------------|-----------------------|
|   | <u>Developmental Effort</u> | <u>Ongoing Effort</u> |
| Separating the universe of LSC compliance requirements into the new bifurcated structure.                               | 0.25                        | 0.10                  |
| Maintaining a codified set of authoritative interpretations of all compliance requirements.                             | 0.50                        | 0.10                  |
| Defining and revising LSC quality assurance standards.  | 0.75                        | 0.10                  |
| Developing and maintaining a comprehensive set of guidelines describing how quality reviews shall be conducted.         | 3.00                        | 0.75                  |
| Defining quality reviewer qualifications.   | 0.20                        | 0.10                  |
| Developing a revised grantee audit guide.   | 0.50                        |                       |
| Recruiting quality reviewers and maintaining a data base of quality reviewer information.                               | 2.00                        | 0.75                  |
| Appointing and approving quality review teams.  |                             | 1.00                  |
| Providing technical assistance to quality reviewers during on-site reviews.   |                             | 1.50                  |
| Accepting quality review reports and approving or rejecting grantee corrective action plans.                            |                             | 1.00                  |
| Defining and implementing sanctions for grantees receiving qualified or adverse quality review results.                 |                             | 0.50                  |
| Conducting training for quality reviewers.  | 2.50                        | 1.50                  |
| Maintaining objective grantee performance indicator data with which to rank grantees in various performance categories. | 1.50                        | 1.00                  |
| Other unanticipated tasks.  | <u>2.00</u>                 | <u>1.00</u>           |
| Total   | <u>13.20</u>                | <u>9.40</u>           |

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As shown in Exhibit I-1, based on PEAR's FY 1993 expenses and hours worked, the full cost per FTE was \$59,452. Based on this, we estimate that the transitional cost for the first year of the revised process should be approximately \$784,766 [13.20 FTEs x \$59,452 per FTE]. The ongoing cost once the process has been fully implemented will be approximately \$558,849 [9.40 FTEs x \$59,452 per FTE].

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**NET COST  
IMPACT TO LSC  
OF THE REVISED  
MONITORING  
PROCESS**

Based on the key assumptions and other analysis discussed above, the net cost impact on an ongoing, annual basis of the revised monitoring approach is summarized as follows:

|   |                    |
|---|--------------------|
| Total Cost of the Current Monitoring Process        | \$2,772,934        |
| Costs of the Revised Monitoring Process:            |                    |
| Consultant Costs                                    | \$130,000          |
| Travel Costs  | 191,620            |
| Additional IPA Audit Costs                          | 193,800            |
| Additional Grantee Costs to Support the IPA Audits  | 48,450             |
| Additional Costs of LSC Desk Reviews of IPA Reports | 48,450             |
| LSC Administration of the Quality Review Process    | <u>558,849</u>     |
| Total Cost of the Revised Monitoring Process        | <u>1,171,169</u>   |
| Net Cost Savings to LSC After Developmental Effort  | <u>\$1,601,765</u> |

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**NET COST  
IMPACT TO LSC  
GRANTEES OF  
THE REVISED  
MONITORING  
PROCESS**

As discussed previously, the recommended revised process will result in additional grantee costs as well as significant savings. We did not factor these costs (except for the additional costs related to the expanded IPA role) or savings into the above estimate of LSC net cost savings, because we do not expect that either the costs or savings will likely be borne by or credited to LSC.

Although a significant percentage of grantees have indicated that they will provide personnel to serve as quality

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reviewers without charging LSC for the labor costs involved, grantees will incur a direct cost for performing this important role. Using the same assumptions described previously for estimating the cost of consultant reviewers, we estimate that the aggregate cost to grantees of providing reviewers will be as follows:

- 130 reviews per year with an average team size of 2.5 reviewers will require 325 reviewers.
- If 80 percent of these reviewers are provided by grantees, and a quality review takes 8 days to complete, at an average daily labor rate of \$250 (this assumes the same daily rate as consultants), then the grantee labor costs will be approximately \$520,000 [325 reviewers x 80% x 8 days x \$250/day].

Based on estimates provided by grantees in response to our survey, the average costs that grantees expend in connection with the current monitoring process before, during, and after the on-site visit are as follows:

| <u>Monitoring Phase</u> | <u>Grantee<br/>Cost Per<br/>Monitoring<br/>Episode</u> |
|-------------------------|--|
| Pre-visit               | \$ 3,343   |
| On-site                 | 5,082  |
| Reporting               | <u>1,789</u>   |
| Total                   | <u>\$10,214</u>  |

The recommended revised process should be less intrusive (and hence less costly) for grantees for all three phases: pre-visit, on-site, and report response. The grantees' costly pre-visit documentation efforts (\$3,343 per episode) should be greatly reduced. We estimate that a more straight-forward and simplified pre-visit document request will reduce these costs by about 75 percent. On-site grantee participation (\$5,082 per episode) will still be required, of course, but should not be as extensive or intensive. We estimate a 50-percent reduction in these costs. Grantee costs of responding to and correcting the monitoring reports (\$1,789 per episode) should be reduced by at least 90 percent. Based on these assumptions, the grantee cost of a quality review will be approximately as follows:

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| <u>Monitoring Phase</u> | <u>Revised Grantee<br/>Cost Per<br/>Monitoring<br/>Episode</u> |
|-------------------------|--|
| Pre-visit               | \$ 836   |
| On-site                 | 2,541  |
| Reporting               | <u>179</u>   |
| Total                   | <u>\$3,556</u>   |

The net cost savings to grantees resulting from this less intrusive quality review would therefore be \$6,658 per review [\$10,214 current cost - \$3,556 revised cost]. With 140 reviews being conducted per year under the current process versus an estimate of 130 reviews per year for the revised process, this will result in an aggregate grantee cost savings of approximately \$967,680 per year [(\$10,214 x 140) - (\$3,556 x 130)].

The net cost savings to grantees will be approximately \$447,680 [\$967,680 - \$520,000].

If this grantee net cost savings is combined with the estimated net cost savings to LSC, the total estimated cost savings to the legal services delivery system will be approximately \$2,049,445 per year or a savings of about 49 percent of the combined cost to LSC and grantees of the current monitoring process.

I. PEAR FY 1993 EXPENSES BREAKDOWN (PER LSC'S COMPTROLLER)

| EXPENSE CATEGORY            | EXPENSES           |
|-----------------------------|--------------------|
| PERSONNEL COMPENSATION      | \$1,894,249        |
| TEMP EMPLOYEE PAY           | 54,699             |
| PERSONNEL BENEFITS          | 356,403            |
| CONSULTING                  | 446,979            |
| TRAVEL & TRANSPORTATION     | 412,749            |
| COMMUNICATIONS              | 8,855              |
| OCCUPANCY COSTS             | 25,615             |
| PRINTING & REPRODUCTION     | 225                |
| OTHER OPERATING EXPENSES    | 2,597              |
| TOTAL FY 1993 PEAR EXPENSES | <u>\$3,202,371</u> |

II. ALLOCATION OF LABOR (PERSONNEL AND TEMP) COSTS BASED ON PEAR TIME KEEPING STUDY

| COST ALLOCATION AREA       | LABOR                        |                  |                    |
|----------------------------|------------------------------|------------------|--------------------|
|                            | PER PEAR TIME KEEPING REPORT | HOURS            | PERCENT            |
| GRANTEE MONITORING         |                              |                  |                    |
| PRE-VISIT                  |                              | 1,319.50         | 10.30%             |
| ONSITE WORK                |                              | 942.92           | 7.36%              |
| REPORT PRODUCTION          |                              | 3,083.00         | 24.07%             |
| ENFORCEMENT APPROVAL QUERY |                              | 509.72           | 3.98%              |
| COMPLAINT RESPONSE         |                              | 609.15           | 4.76%              |
| AUDIT REVIEW               |                              | 436.80           | 3.41%              |
| ADMIN TASKS                |                              | 2,885.53         | 22.53%             |
| MISC                       |                              | 895.25           | 6.99%              |
| LEAVE                      |                              | 2,124.35         | 16.59%             |
| TOTAL                      |                              | <u>12,806.22</u> | <u>100.00%</u>     |
|                            |                              |                  | <u>\$1,948,948</u> |

### III. DETERMINATION OF PEAR'S LABOR OVERHEAD RATE

| EXPENSE CATEGORY         | TOTAL       | OVERHEAD  |
|--------------------------|-------------|-----------|
| LABOR COSTS              | \$1,948,948 |           |
| PERSONNEL BENEFITS       | 356,403     | 356,403   |
| CONSULTING               | 446,979     |           |
| TRAVEL & TRANSPORTATION  | 412,749     |           |
| COMMUNICATIONS           | 8,855       | 8,855     |
| OCCUPANCY COSTS          | 25,615      | 25,615    |
| PRINTING & REPRODUCTION  | 225         | 225       |
| OTHER OPERATING EXPENSES | 2,597       | 2,597     |
| TOTAL FY 1993 EXPENSES   | \$3,202,371 | \$393,695 |

PEAR'S LABOR OVERHEAD AS % OF LABOR COSTS

20.20%

I-14

### IV. ALLOCATION OF LABOR OVERHEAD COSTS AND GENERAL AND ADMINISTRATIVE (G&A) EXPENSE RATE CALCULATION

| COST ALLOCATION AREA                  | COST        | OVERHEAD (20.20%) | LABOR PLUS OVERHEAD | DIRECT COSTS | G&A COSTS   |
|---------------------------------------|-------------|-------------------|---------------------|--------------|-------------|
| LABOR COSTS                           |             |                   |                     |              |             |
| GRANTEE MONITORING: PRE-VISIT         | \$200,812   | \$40,565          | \$241,376           | \$241,376    |             |
| GRANTEE MONITORING: ONSITE WORK       | 143,501     | 28,988            | 172,488             | 172,488      |             |
| GRANTEE MONITORING: REPORT PRODUCTION | 469,194     | 94,779            | 563,973             | 563,973      |             |
| ENFORCEMENT APPROVAL QUERY            | 77,573      | 15,670            | 93,243              | 93,243       |             |
| COMPLAINT RESPONSE                    | 92,705      | 18,727            | 111,432             | 111,432      |             |
| AUDIT REVIEW                          | 66,476      | 13,428            | 79,904              | 79,904       |             |
| ADMIN TASKS                           | 439,142     | 88,708            | 527,850             |              | \$527,850   |
| MISC                                  | 136,246     | 27,522            | 163,768             |              | 163,768     |
| LEAVE                                 | 323,300     | 65,308            | 388,608             |              | 388,608     |
| TOTAL LABOR COSTS                     | \$1,948,948 | \$393,695         | \$2,342,643         | \$1,262,417  | \$1,080,226 |

CONSULTING

446,979

TRAVEL & TRANSPORTATION

412,749

446,979

412,749

\$2,122,145

\$1,080,226

PEAR G&A COSTS AS % OF DIRECT COSTS

50.90%

V. ALLOCATION (PER STANDARD CONTRACT) OF CURRENT CONSULTING COST BY MONITORING PHASE

| CONSULTING COSTS | DAYS | COST      |
|------------------|------|-----------|
| PRE-VISIT        | 1    | \$55,872  |
| ONSITE           | 5    | 279,362   |
| REPORTING        | 2    | 111,745   |
| TOTAL            | 8    | \$446,979 |

VI. ALLOCATION OF TOTAL PEAR COSTS BY DIRECT COST OBJECTIVE

| PEAR DIRECT COST ALLOCATION OBJECTIVE | LABOR PLUS OVERHEAD | CONSULTING COSTS | TRAVEL COSTS | DIRECT COST & OVERHEAD | G&A COST    | TOTAL COST  | % OF TOTAL |
|---------------------------------------|---------------------|------------------|--------------|------------------------|-------------|-------------|------------|
| GRANTEE MONITORING:                   |                     |                  |              |                        |             |             |            |
| PRE-VISIT                             | \$241,376           | \$55,872         |              | \$297,249              | \$151,307   | \$448,556   | 14.01%     |
| ONSITE WORK                           | 172,488             | 279,362          | 412,749      | 864,599                | 440,103     | 1,304,702   | 40.74%     |
| REPORT PRODUCTION                     | 563,973             | 111,745          |              | 675,718                | 343,958     | 1,019,676   | 31.84%     |
| TOTAL GRANTEE MONITORING              | \$977,838           | \$446,979        | \$412,749    | \$1,837,566            | \$935,368   | \$2,772,934 | 86.59%     |
| ENFORCEMENT APPROVAL QUERY            | 93,243              |                  |              | 93,243                 | 47,463      | 140,706     | 4.39%      |
| COMPLAINT RESPONSE                    | 111,432             |                  |              | 111,432                | 56,722      | 168,154     | 5.25%      |
| AUDIT REVIEW                          | 79,904              |                  |              | 79,904                 | 40,673      | 120,577     | 3.77%      |
| TOTAL PEAR EXPENSES                   | \$1,262,417         | \$446,979        | \$412,749    | \$2,122,145            | \$1,080,226 | \$3,202,371 | 100.00%    |

VII. TOTAL COSTS BY MONITORING PHASE

| MONITORING PHASE | TOTAL COST  | PER EPISODE (140/YEAR) |
|------------------|-------------|------------------------|
| PRE-VISIT        | \$448,556   | \$3,204                |
| ON-SITE          | 1,304,702   | 9,319                  |
| REPORTING        | 1,019,676   | 7,283                  |
| TOTAL            | \$2,772,934 | \$19,807               |

VIII. COMPUTE TOTAL COST OF PEAR FULL TIME EQUIVALENT (FTE) PERSONNEL

|   |             |
|---|-------------|
| TOTAL PEAR FY 1993 EXPENSES                     | \$3,202,371 |
| LESS CONSULTANTS                                | 446,979     |
| LESS TRAVEL                                     | 412,749     |
| TOTAL FY 1993 PEAR PERSONNEL-RELATED EXPENSES   | \$2,342,643 |
| TOTAL HOURS (PER 2-MONTH PERIOD)                | 12,806.22   |
| TOTAL HOURS PER YEAR                            | 51,224.88   |
| PEAR FY 1993 FTEs (TOTAL HOURS DIVIDED BY 1950) | 39.40       |
| PEAR PERSONNEL COSTS PER FTE                    | \$59,452    |





**MODEL FOR A REORGANIZED  
LEGAL SERVICES CORPORATION  
GRANTEE MONITORING PROCESS**

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This appendix presents a suggested framework for a reorganized LSC grantee monitoring process that will implement most of the recommendations contained in our audit report. Our intent is to highlight and explain a *concept* rather than suggest specific details. Where details are included, they are intended as examples and options for consideration rather than specific recommendations. Experienced LSC personnel should be called upon to develop the standards, policies and procedures, performance indicators, and other details needed for effective implementation.

The concepts discussed in this appendix are derived from existing systems that experience has shown are effective and economical in meeting objectives similar to those of LSC's grantee monitoring process. Federal executive branch agencies have, since 1981, been required to establish systems of management controls, perform vulnerability assessments, and conduct internal control reviews. This Federal requirement is mandated by the Federal Managers' Financial Integrity Act and explained and implemented through Office of Management and Budget (OMB) Circular A-123, *Internal Control Systems*. OMB Circular A-123 is, in turn, structured in accord with fundamental audit theory as defined and developed by the Auditing Standards Board of the AICPA. LSC's monitoring process is, in the generic sense of the term, an audit process. Thus, these concepts are relevant.

More specifically, however, we have adapted to LSC's needs the peer review and quality review approaches developed and implemented successfully by the AICPA over the past 20 years.<sup>6</sup> AICPA's goal in developing and refining these processes has been to ensure that CPA firms provide the highest quality and most effective professional services possible. We think that this quality review approach will also work well for LSC.

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<sup>6</sup> A detailed description of the AICPA peer and quality review processes can be found in the *AICPA Division for CPA Firms Peer Review Manual*.

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Many of the concepts and ideas developed as part of LSC's Comparative Demonstration Project as well as the standards contained in the American Bar Association's (ABA) *Standards for Providers of Civil Legal Services to the Poor* are relevant to and entirely compatible with the framework we suggest.

Our audit's data collection phase indicates that grantees generally favor the type of approach suggested in this appendix. Some LSC managers have expressed reservations about departing from the status quo, while others have given these suggestions a qualified endorsement.

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## **OVERVIEW**

Monitoring grantees to ensure that they are complying with requirements of the LSC Act and regulations is an important and necessary process. LSC's current method of monitoring these requirements is to try to monitor all requirements through comprehensive on-site monitoring reviews by teams of LSC staff and outside consultants.

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## **Different Compliance Requirements Warrant Different Monitoring Approaches**

Our audit indicates that LSC's compliance requirements can be separated into two categories:

- Requirements that are technical, objective, and relatively easy to measure (technical compliance requirements), and
- Requirements that are qualitative and thus require poverty law experience to assess and report on credibly (qualitative compliance requirements).

With this "bifurcation" in mind, we recommend dividing the monitoring process into two functions.

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## **Monitoring Technical Compliance**

The first monitoring function deals with assuring that grantees comply with the technical compliance requirements. We think that this aspect of monitoring can be achieved via a two-step process. First, grantees should be required to (a) perform an annual self-assessment of their compliance with these (pre-defined by LSC) technical requirements; and (b) sign a certification of compliance with these requirements. Second, each grantee should be required to engage an IPA to perform (in addition to the required annual financial statement audit) an attestation

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engagement (in accordance with *Government Auditing Standards*<sup>7</sup> and the *Statements on Standards for Attestation Engagements*<sup>8</sup>) designed to test and report on the veracity, accuracy, and completeness of the grantee certification of compliance. This expanded IPA role will require issuance of an updated LSC audit guide containing specific guidance and requirements that the IPAs will follow. It will also require careful oversight by LSC to assure that IPAs understand and are following these expanded requirements. We think that significant cost savings will result from this revised technical compliance monitoring approach.

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**Monitoring  
Qualitative  
Compliance**

The second monitoring function deals with the qualitative compliance requirements. Perhaps the principal qualitative compliance requirements are in Section 1007 of the Act. That section establishes that LSC shall ensure that grantees provide high quality and effective legal services to the poor. This has been and will continue to be a difficult compliance requirement to assess, because quality and effectiveness (by definition subjective concepts) are difficult to measure. Without predefined parameters against which quality and effectiveness can be measured, any attempt to assess and report on an organization's quality and effectiveness of performance will only lead to contention and unresolvable debate.

We think that a two-level quality framework setting forth predefined grantee quality assurance parameters must be designed and put in place before grantee quality can be monitored effectively.

- First, LSC must establish program-wide *legal services delivery quality standards* that consist of broadly defined rules for the measurement of quality and effectiveness with respect to the provision of legal services to the poor.<sup>9</sup> These standards should focus on attributes or characteristics that LSC's experience has shown will, when possessed or applied by

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<sup>7</sup> *Standards for Audit of Governmental Organizations, Programs, Activities, and Functions*, promulgated by the U.S. General Accounting Office.

<sup>8</sup> Promulgated by the American Institute of Certified Public Accountants.

<sup>9</sup> Webster's defines a standard as "something established by authority, custom, or general consent as a model or example: *criterion*; something set up and established by authority as a rule for the measure of quantity, weight, extent, value, or quality."

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grantees, result in higher quality and greater effectiveness of legal services.

- Second, grantees should be required to define and document their individual, practice-specific interpretation of how these standards are being implemented in their program. These specific *grantee legal services delivery quality policies and procedures* will consist of the measurable practices and reviewable operational procedures that grantee management and staff must follow on a day-to-day and case-by-case basis in order to achieve the broader LSC quality standards.

Once this quality framework is established and implemented by LSC and its grantees, monitoring the qualitative compliance requirements can be achieved with a minimum of contention through periodic *grantee quality reviews*.

Although it is difficult to predict with precision the cost savings that will result from a change to this grantee quality review process, we are convinced that this will be a more economical and efficient way to promote compliance with LSC's qualitative requirements. Part of the difficulty in comparing costs of the current process with costs of this recommended process stems from the fact that, based on our audit analysis, relatively little focus is placed on this type of qualitative assessment by the current process.

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#### Grantee Quality Reviews

The grantee quality review process should be designed to assess three aspects of grantee performance:

- *How well the grantee has interpreted LSC's legal services delivery quality standards via the grantee's quality policies and procedures.* This assessment must be based on an understanding of the local program's constituent characteristics and needs and the grantee's organizational structure and characteristics.
- *The extent to which the grantee is adhering to its quality policies and procedures.* This assessment will be based on testing (primarily through a review of documentation and interviews of personnel) of each policy and procedure.

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- *Specific evidence of the effectiveness or ineffectiveness of the grantee's quality policies and procedures.* This assessment must be based upon a review of a sample of case files.

A key characteristic of this grantee quality review process is that it will have a foundation of pre-established criteria (LSC's legal services delivery quality standards and the grantee's own quality policies and procedures). These criteria will focus the reviews and should minimize arguments regarding whether or not quality deficiencies exist.

For this process to work effectively and be approached with a positive attitude by grantees, we think that the grantee quality reviewers must be individuals with recent, relevant poverty law experience.

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## **Simplified Reporting**

Another key characteristic of this grantee quality review approach is a streamlining of the reporting process. We think that a grantee quality review report should be brief and finalized quickly following a review. The report should state simply and concisely that:

- The grantee is in substantial compliance with LSC's legal services delivery quality standards and the grantee's own quality policies and procedures; or
- The grantee is in substantial compliance with LSC's legal services delivery quality standards and the grantee's own quality policies and procedures, except for certain noted deficiencies; or
- The grantee is not in substantial compliance with LSC's legal services delivery quality standards and the grantee's own quality policies and procedures, because of certain noted deficiencies.

An effective grantee quality review report should consist of a one-page report containing the overall conclusion accompanied by a brief *letter of comments* containing concise descriptions of any deficiencies noted. (See Exhibit II-1 for examples of suggested report and letter of comment formats.) A final report along with the grantee's response and plan for corrective action should be submitted to LSC no later than 30 days after completion of the on-site review.

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**LSC Management  
and Performance  
Measurement**

Two related aspects of this suggested model for a reorganized LSC grantee monitoring process are (1) a redefined role for PEAR as the manager of the reorganized process, and (2) a quantifiable performance measurement system with which to allocate scarce monitoring and technical assistance resources and recognize superior and inferior operational performance by grantee organizations.

The remainder of this appendix will discuss these topics in more detail. These discussions are intended to provide a better illustration of the concepts we are suggesting and should not necessarily be viewed as suggestions of final details or the only or best means of implementing these concepts.

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**MONITORING  
TECHNICAL  
COMPLIANCE  
REQUIREMENTS  
THROUGH AN  
EXPANDED  
IPA ROLE**

Most objections to our recommendation to monitor technical compliance as part of the annual financial and compliance audit process stem from dissatisfaction with or lack of confidence in the quality of IPA work under the present method of operation. We think this skepticism is understandable but misplaced. IPAs are currently operating under outdated standards and audit guides. An action that is urgently needed and long overdue is the revision of the LSC Audit and Accounting Guide.

An updated audit guide should be issued and made mandatory. This updated guide should require adherence to *Government Auditing Standards* and contain detailed and precise requirements for LSC-program-specific compliance testing and reporting. In order to fit within the current framework of public accounting professional standards, the guide should stipulate that grantee management is responsible for ensuring compliance with LSC's rules and regulations and that the IPA's role is to attest to whether or not management is fulfilling this responsibility.

Once an updated audit guide is developed, LSC will need to carefully monitor and manage the guide's implementation on an ongoing basis. LSC should require PEAR to (1) continue to perform "desk reviews" of all IPA reports; (2) reject and refuse to pay for audits found to be substandard; and (3) refer substandard audits to the OIG for followup action. The OIG should continue to (1) perform "quality assurance reviews" of IPA workpapers whose reports reflect potential substandard work; (2) perform quality assurance reviews of IPA workpapers on a random sample basis; and (3) make referrals both to state accountancy boards and the AICPA in cases where reviews disclose substandard IPA

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audit work. [These desk review and quality assurance review processes are consistent with the policies and procedures being used by the President's Council on Integrity and Efficiency (PCIE), and the PCIE has well-established processes in place in other Federal agencies for managing this oversight function.]

LSC personnel and others also emphasize that there are many compliance requirements that may appear to be easily and objectively assessable, but that (1) there may be varying interpretations as to what the requirements actually mean, and (2) these requirements may also have a qualitative dimension. Regarding this first concern, we think that compliance requirements should not be monitored unless and until LSC has made definitive and authoritative interpretations of their meaning. Regarding the second concern, we do not think that an IPA's testing for technical compliance with a requirement should be viewed as precluding the subsequent or concurrent monitoring of that requirement's qualitative aspect as part of the grantee quality review process.

For example, grantee governing boards are required to be composed of at least one-third client-eligible members. Provided that a definitive interpretation of this requirement exists, measuring *technical* compliance with it should be relatively straight-forward and does not require specialized legal expertise. The implied *qualitative* aspect of this requirement (that these client-eligible board members should attend meetings, contribute to discussions and decisions, and help the grantee better serve its constituency) can and should be addressed as part of the grantee quality review process.

We think that expanding the IPA role to address technical compliance monitoring will yield significant cost savings. At a minimum, it will eliminate the current costs associated with the duplication by LSC monitoring teams of areas also addressed by IPAs, and it will also eliminate the travel costs associated with LSC monitoring teams performing technical compliance-related tasks. Further (and even more difficult to quantify) savings should also accrue from allowing the grantee quality reviewers to focus their attention exclusively on quality-related matters.

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**LSC LEGAL  
SERVICES  
DELIVERY  
QUALITY  
STANDARDS**

LSC's in-progress Comparative Demonstration Project should provide most (if not all) of the experience and insight needed to define legal services delivery quality standards. The goal in defining standards is to identify causal characteristics that increase the propensity for positive outcomes. (For example, if past reviews of poverty law practices have indicated that when no supervisory attorney review of motions and pleadings took place, only 35 percent of cases had successful outcomes; whereas when supervisory reviews took place, the case outcome success rate was 80 percent, then a corresponding *legal services delivery quality standard* might be: "LSC grantees should establish policies and procedures requiring supervisory attorney reviews of motions and pleadings.")

We offer the following list of examples only to illustrate the level and nature of standards that LSC should seek to define. The combination of (a) LSC's experience in reviewing poverty law practices, (b) knowledge gained from working with the Comparative Demonstration Project's "criteria" and "indicators," and (c) the elements contained in the *ABA Standards for Providers of Civil Legal Services to the Poor* will enable an optimal set of LSC-specific standards to be developed. Several of the following example standards were adapted directly from the AICPA's *Statement on Quality Control Standards Number 1*.

- Ethics. Policies and procedures should be established to provide the grantee organization with reasonable assurance that persons at all organizational levels adhere to the ethical standards of the legal profession.
- Assigning Personnel to Cases. Policies and procedures for assigning personnel to cases should be established to provide the grantee with reasonable assurance that work will be performed by persons having the degree of technical training and proficiency required in the circumstances.
- Consultation. Policies and procedures for consultation should be established to provide the grantee with reasonable assurance that personnel will seek assistance, to the extent required, from persons having appropriate levels of knowledge, competence, judgement, and authority.



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- Supervision. Policies and procedures for the conduct and supervision of work at all organizational levels should be established to provide the grantee with reasonable assurance that the work performed meets LSC's legal services delivery quality standards.
  - Recruiting and Hiring. Policies and procedures for recruiting and hiring should be established to provide the grantee with reasonable assurance that those employed possess the appropriate characteristics to enable them to perform competently.
  - Professional Development. Policies and procedures for professional development should be established to provide the grantee with reasonable assurance that personnel will have the knowledge required to enable them to fulfill responsibilities assigned.
  - Advancement. Policies and procedures for advancing personnel should be established to provide the grantee with reasonable assurance that those selected for advancement will have the qualifications necessary for fulfillment of the responsibilities they will be called upon to assume.
  - Acceptance and Continuance of Cases. Policies and procedures should be established for determining which cases to accept to maximize the likelihood of meeting the grantee's most pressing constituent needs in compliance with the Legal Services Corporation Act. Other policies and procedures should be established defining circumstances in which representation should be discontinued.
  - Strategic Planning. Policies and procedures should be established to provide reasonable assurance of making optimum use of resources to identify and address the most pressing legal representation needs of the grantee's constituent community.
  - Outreach. Policies and procedures should be established to provide reasonable assurance that the maximum number of client-eligible persons in the grantee's geographic area have access to and

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are made aware of the existence of and procedures for using the grantee's services.

- Case Management. Policies and procedures should be established to provide reasonable assurance that cases are assigned on a timely basis, that staff workloads are reasonable and balanced, and that all case deadlines are met.
- Inspection. Policies and procedures for inspection should be established to provide the grantee with reasonable assurance that the procedures relating to the other elements of LSC's legal services delivery quality standards are being effectively applied.

Again, it is not our intent in presenting the above examples to imply that these are the standards that LSC should adopt. Rather, we present these examples to indicate the nature and conceptual level of standards that will provide guidance to grantees to enable them to achieve LSC's quality and effectiveness goals.

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**GRANTEE LEGAL  
SERVICES  
DELIVERY  
QUALITY  
POLICIES AND  
PROCEDURES**

LSC personnel and others have impressed upon us the importance of allowing individual grantees the latitude to establish organizational structures and define operating procedures that enable them to best address the needs of their constituents. Grantees' sizes, structures, geographic and demographic characteristics, predominant legal practice areas, and extent of private attorney involvement differ significantly. No single set of legal services delivery quality policies and procedures can possibly serve all grantees.

With LSC's legal services delivery quality standards as a framework, grantees should be required to develop specific policies and procedures that will enable them to adhere to these standards in such a way that quality and effectiveness of legal services in their area are maximized. (Most, if not all, grantees already have documented administrative policies and procedures. Consequently, a revision of these existing procedures to align them with the LSC legal services delivery quality standards should not be an overly burdensome task.) Policies and procedures should be as specific and as innovative as possible. They should be designed to optimize the grantee's resources, maximize the effect of the grantee's positive attributes, and minimize the effects of any negative attributes.

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For example, in translating LSC's legal services delivery quality standard on recruitment and hiring, a grantee's quality policies and procedures would probably include specific steps designed to establish and maintain relationships with law schools in or near its area and with state or local bar organizations. Similarly, with regard to consultation, the policies and procedures would probably identify the specific consulting resources to which the grantee has access, the specific circumstances under which these consulting resources should or must be utilized, and how such consultation should be documented. Such consultation policies and procedures would probably be significantly different for a large, single-office, urban grantee than they would be for a smaller, multi-office, rural grantee.

An important element of the grantee-specific policies and procedures must be the definition of the grantee's requirements for documenting adherence to the procedures. For example, policies and procedures related to supervision would probably include case file formats and document control formats that have supervisory sign-off blanks where mandatory supervisor or second attorney reviews have been deemed essential. Similarly, policies and procedures related to professional development and advancement would probably stipulate personnel file content requirements and evaluation documentation formats.

These documentation requirements are a critically important element of the total grantee quality review framework. They are essential because they will permit an objective determination to be made of whether or not a grantee is actually conforming to its established policies and procedures. For example, if a grantee's policies and procedures require a supervisory attorney review of all pleadings, and the grantee quality reviewer finds that for half of the case files he or she reviews no supervisory review took place, then some type of corrective action would unarguably be needed. The ensuing discussion might revolve around whether the grantee should relax its policy for certain types of cases; or it might revolve around the need for stricter grantee controls to enforce the existing policy. In either event, there would probably not be any arguments over whether or not a deficiency in the grantee's system exists.

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**GRANTEE  
QUALITY REVIEW  
STANDARDS AND  
PROCEDURES**

As noted on page 1 of this appendix, our suggestions for structuring LSC's grantee quality review process have been adapted largely from the AICPA's successful peer review and quality review processes. To implement and manage an LSC grantee quality review process, the following topics will need to be codified by LSC into a set of *grantee quality review standards and procedures*:

- Reviewer Qualifications and Review Team Selection
- Review Frequency
- Review Procedures
- Reporting

Our suggestions for LSC's consideration related to these topics follow.

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**Reviewer  
Qualifications  
and Review  
Team Selection**

It is axiomatic that a person is, in general, better-suited to evaluate how well an activity is being performed if that person has actual experience in performing that activity. Most grantees as well as others affiliated with LSC's mission agree that current poverty law practice experience should be a qualification requirement for LSC's grantee quality reviewers.

We do not think that reviewers need or should necessarily be limited to LSC grantee personnel, but they should be attorneys or legal practice administrators with current poverty law experience. A majority of LSC grantees responding to our audit's data collection instrument expressed a willingness to provide personnel to participate as reviewers.

We suggest that grantee quality reviewers be required to:

- Have a minimum number of years of recent poverty law practice experience. (For example, no less than 5 years to be a team leader; no less than 2 years to be a team member; and must have practiced poverty law within the preceding 2 years.)
- Have attended recent LSC-sponsored training in how to conduct a grantee quality review.
- Be pre-approved by LSC as qualified to conduct a review.

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- Certify that they have no personal or organizational conflicts of interest with respect to the grantee they will review.
  - Identify his or her areas of legal expertise and experience.
  - Have received an unqualified grantee quality review report from their organization's last grantee quality review (if the reviewer is from a grantee).
  - Be assigned appropriately based on specific experience and areas of expertise.

LSC should consider two options for review team selection. The first option is to have LSC staff select the review team from its database of qualified reviewers. Selection would be based upon a matching of grantee characteristics with those of the reviewers selected. The second option is to allow the grantee to select a team from the database of LSC-approved reviewers: again, based on a matching of reviewer expertise and the grantee's practice characteristics. Under this latter option, LSC would exercise the authority to veto a grantee's selection in cases where LSC deems the selection inappropriate.

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**Review  
Frequency**

Frequency of grantee quality reviews should eventually be a function of review results. Better performing grantees may be determined to need reviews less frequently than grantees with observed quality problems. As a starting requirement, however, we suggest that grantees have grantee quality reviews performed within the next three years, with subsequent review intervals to be decided thereafter. Grantees should be required to perform "self-inspections" in years in which they do not have LSC grantee quality reviews. (In a self-inspection, the grantee would assign a senior staff member to conduct an in-house quality review following essentially the same review procedures used in an LSC grantee quality review. During the next LSC-mandated grantee quality review, the reviewers would assess the grantee's documented self-inspection results as a key step in their review.)

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**Review  
Procedures**

The exact procedures needed to complete a thorough review will be a function of (1) the compliance requirements that LSC decides to monitor through the grantee quality review process, and (2) the LSC legal services delivery quality

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standards. A standard set of review procedures will define pre-review steps, on-site review steps, and post-visit review finalization procedures.

Maintaining a focus on quality issues as opposed to technical compliance issues should considerably reduce the pre-review documentation demands placed on grantees. Documentation needed in advance of the review will probably be limited to the grantee's quality policies and procedures, board meeting minutes, a personnel roster, and a list of cases handled during the review period. (The ideal situation regarding the case list would be a case list by grantee internal accounting number, a categorization of each case by practice area, and the number of staff hours devoted to each case during the period under review. This will enable the reviewers to select the most representative case sample for on-site review.)

On-site review procedures should encompass three phases of review:

1. A review of how effectively the grantee's specific quality policies and procedures implement LSC's legal services delivery quality standards.
2. Testing of documentary evidence and interviews of personnel to obtain assurance that the grantee's quality policies and procedures are, in fact, in place and being performed.
3. Other procedures designed to assess the quality and effectiveness of the grantee's services. This might include a review of a sample of case files, interviews with judges, or interviews with clients.

LSC should carefully define the minimum requirements that reviewers will follow for documenting the review work they actually perform. This will enable LSC follow-up reviews to assess the thoroughness and quality of the grantee quality reviewers' work.

As described in our report, we recommend that LSC adopt applicable parts of GAO's *Government Auditing Standards* as the standards governing the grantee quality review work. Doing so will establish minimum requirements for independence, technical competence, continuing education, workpaper documentation, conduct of fieldwork, and reporting to which the reviewers must adhere.

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LSC's grantee quality review procedures should also address the way in which "findings" are developed and communicated to grantees. Suspected deficiencies should be discussed with grantee personnel as soon as they become evident, and every attempt should be made to arrive at concurrence and corrective action positions before the site visit is completed. This will facilitate the simplified reporting process discussed below.

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## Reporting

If the grantee quality review team's findings and conclusions are discussed with the grantee during and at the conclusion of the review, then the purpose of the report is solely to document the review team's conclusions and the grantee's reactions. The final report package can consist of a:

1. 1-page scope and conclusion report,
2. Letter of comment containing descriptions of any deficiencies noted during the review, and
3. Letter from the grantee indicating the grantee's concurrence or non-concurrence with the conclusions and brief descriptions of planned corrective actions.

Exhibit II-1 contains suggested standard formats for the grantee quality review report and letter of comment.

The letter of comment's findings should follow the format prescribed by *Government Auditing Standards* and should contain a concise presentation of each deficiency noted. Elements of each finding should include:

- Condition: Brief description of the matter noted during the review that indicates non-conformance with established standards, policies, or procedures.
- Criterion: Citation of the specific LSC legal services delivery quality standard or the specific grantee policy or procedure that the noted condition violates.
- Cause: Brief explanation of why the condition occurred.
- Effect: Description of the actual or potential adverse consequence that the observed condition led to or could lead to if not corrected.

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- Recommendation: Brief explanation of the action needed to correct the condition noted.

Limiting the letter of comment to these elements conveys all necessary information in an economical, efficient, and effective manner and focuses attention on the review results and corrective actions needed.

Deficiencies would generally fall into one of two categories:

- Design deficiencies in which the reviewer concludes that the grantee's policies and procedures are not designed with enough detail or focus to provide reasonable assurance of allowing the grantee to meet LSC's legal services delivery quality standards.
- Noncompliance with the grantee's policies and procedures in which the reviewer finds the grantee has not adhered to its own mandated set of policies and procedures.

(Reviewers may also find other, more direct evidence of a quality deficiency. Client interviews, for example, may yield an inordinate number of complaints about a particular grantee staff member. Often such direct evidence is symptomatic of a more generic problem area such as a supervision breakdown and can be traced to either the underlying design or noncompliance deficiency.)

If grantee personnel are apprised of the grantee quality review results at the end of the on-site review, they can formulate a response to each noted deficiency as soon as possible. Aside from the primary objective of facilitating prompt corrective action, this process will allow the entire final report package (report, letter of comment, and grantee response) to be delivered to LSC no later than 30 days after completion of the on-site review.

We understand the need for and value of recognizing noteworthy grantee accomplishments. Positive feedback is always welcome. More important, however, is the need to compile and disseminate lists of innovative ideas that other programs can use. Grantee quality reviewers should be alert for noteworthy accomplishments, but this information should be documented and communicated to LSC and the grantee's board through a separate document.



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As noted previously, although we think this suggested grantee quality review approach will be more effective and efficient, cost savings are difficult to estimate. As described in our report, a significant number of grantees have expressed a willingness to donate staff time to the process. We think this willingness stems from a sincere belief that grantees will benefit from a peer review process and the recognition that reviewers themselves will benefit greatly from studying other programs in operation. If significant numbers of grantee personnel are used as reviewers on a donated-time basis, LSC's monitoring function labor costs will decrease substantially. (See Appendix I for a detailed discussion of projected cost savings.)

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**REDEFINED ROLE  
FOR PEAR**

To implement and manage the reorganized monitoring process LSC will need to re-structure itself accordingly. Examples of revised PEAR duties and responsibilities that will be needed include the following:

- Separating the universe of LSC compliance requirements into the new bifurcated structure.
- Maintaining a codified set of authoritative interpretations of all compliance requirements.
- Defining and revising LSC's legal services delivery quality standards.
- Developing the revised LSC Grantee Audit Guide, including a detailed compliance audit program for IPAs to follow.
- Developing a comprehensive set of guidelines describing how grantee quality reviews shall be conducted.
- Defining the grantee quality reviewer qualifications.
- Recruiting grantee quality reviewers and maintaining a database of grantee quality reviewer information.
- Appointing grantee quality review teams or approving grantee selections of review teams.
- Providing technical assistance to grantee quality reviewers during on-site reviews.

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- Accepting grantee quality review reports and approving or rejecting grantee corrective action plans.
  - Defining and implementing sanctions for grantees receiving qualified or adverse grantee quality review results.
  - Performing quality control reviews of grantee quality review workpapers.
  - Conducting training for grantee quality reviewers.
  - Performing desk reviews of IPA compliance reports.
  - Maintaining objective grantee performance indicator data with which to rank grantees in various performance categories.

This final and important task has, according to PEAR personnel, already been started. It will provide valuable information needed to manage the overall revised grantee monitoring process.

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**QUANTIFIABLE  
PERFORMANCE  
MEASUREMENT**

Considerable attention has been devoted recently to the development of government program performance measurement systems. Federal agency development of objective performance indicators is a crucial requirement of the Chief Financial Officers Act of 1990. Similarly, the Vice President's *Report of the National Performance Review* emphasized the importance of developing and using measurable objectives and reporting results. Finally, the principal thrust of the Government Performance and Results Act of 1993 is the implementation of this important management concept.

The process of developing quantifiable measures of grantee performance will be difficult and potentially controversial. It is, however, essential to LSC's need to make the most efficient and effective use of its limited resources. PEAR personnel indicated to us that they have already separated the universe of LSC grantees into "clusters" of grantees with comparable characteristics. The next task needed is to determine the performance measures to be collected and maintained that will rank the grantees within each cluster.

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We encourage PEAR to continue and complete its efforts to develop both programmatic and administrative performance measures, define data collection methods, and begin compiling and reporting the results.

We envision three principal positive results from the implementation of quantifiable performance measures. First, these indicators will allow LSC to identify poorly performing grantees so that grantee quality review and technical assistance resources can be focused in the areas where they will achieve the greatest positive impact.

Second, by defining the indicators that LSC will measure, LSC will be communicating in the clearest possible fashion what grantee priorities should be. For example, if LSC decides it is beneficial to encourage grantees to expand their funding bases, then LSC can require grantees to routinely report their ratios of non-LSC to LSC funding and recognize (1) grantees with the highest ratios and (2) grantees showing the greatest increases in this ratio over time.

Finally, these performance indicators will be an excellent means of recognizing publicly programs that consistently perform at high levels as well as programs that show consistent and significant improvement over time.



Suggested Standard Format for an LSC  
Grantee Quality Review Report

July 30, 19XX

To the Board of Directors  
Legal Services Corporation  
Washington, D.C.

We have reviewed the system of legal services delivery quality of the Statewide Legal Services Program (the Program) in effect for the year ended June 30, 19XX. Our review was conducted in conformity with the U.S. General Accounting Office's *Government Auditing Standards* (for performance audits) and LSC's *Standards and Procedures for the Conduct of Quality Reviews of LSC Grantees*. We tested compliance with the Program's *Legal Services Delivery Quality Policies and Procedures* and with LSC's *Legal Services Delivery Quality Standards* to the extent we considered appropriate. These tests included the application of the Program's policies and procedures on selected case files and other appropriate documentation.

[UNQUALIFIED CONCLUSION]

Based on our review, we concluded that the Statewide Legal Services Program was in substantial compliance with LSC's *Legal Services Delivery Quality Standards* and the Program's *Legal Services Delivery Quality Policies and Procedures* during the year ended June 30, 19XX. As part of our review, we noted several areas in which the Program's policies and procedures can be strengthened and improved. These are described in the enclosed *Letter of Comment*.

[QUALIFIED CONCLUSION]

Based on our review, we concluded that the Statewide Legal Services Program was in substantial compliance with LSC's *Legal Services Delivery Quality Standards* and the Program's *Legal Services Delivery Quality Policies and Procedures* during the year ended June 30, 19XX, except for the matters described in the enclosed *Letter of Comment*.

[ADVERSE CONCLUSION]

Based on our review, we concluded that the Statewide Legal Services Program was not in substantial compliance with LSC's *Legal Services Delivery Quality Standards* and the Program's *Legal Services Delivery Quality Policies and Procedures* during the year ended June 30, 19XX, because of the matters described in the enclosed *Letter of Comment*.

Very truly yours,

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Jane Brown  
Team Captain

Suggested Standard Format for an LSC  
Grantee Quality Review Report  
Letter of Comment

We have reviewed the system of legal services delivery quality of the Statewide Legal Services Program (the Program) in effect for the year ended June 30, 19XX, and issued our report thereon, dated July 30, 19XX. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting upon the Program's system of legal services delivery quality. Our review was performed in accordance with the U.S. General Accounting Office's *Government Auditing Standards* (for performance audits) and LSC's *Standards and Procedures for the Conduct of Quality Reviews of LSC Grantees*. Our review would not, however, necessarily disclose all weaknesses in the system or lack of compliance with LSC's requirements, because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of any quality control system. In the performance of most control procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of a quality control system to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Matters That Resulted In a Modified Report

The following matters noted during the review resulted in our issuance of [a qualified] [an adverse] conclusion with respect to the Program's system of legal services delivery quality.

[Concise statements of condition, cause, criterion, effect, and recommendation for each specific deficiency noted.]

[Other] Areas For Improvement

The following matters noted during the review represent areas in which the Program's system of legal services delivery quality can be strengthened and improved.

[Concise statements of condition, cause, criterion, effect, and recommendation for each specific improvement area noted.]

## OBJECTIVES, SCOPE AND METHODOLOGY

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### OBJECTIVES

At the request of the Inspector General of the Legal Services Corporation, Cotton & Company conducted a performance audit of the personnel, policies, procedures, operations, and outcome, of the LSC grantee monitoring process, including: (1) pre-visit preparation; (2) on-site review; (3) report development; and (4) follow-up and enforcement, for the period October 1, 1991, through July 31, 1993.

Specific objectives were to:

1. Determine if LSC's monitoring is essential (are the monitoring visits necessary) and, if deemed essential, can the monitoring be performed more economically and less intrusively.
2. Determine if current grantee monitoring objectives are consistent with LSC's objectives and if the current level of grantee monitoring performance materially satisfies the requirements delineated in the Legal Services Act of 1974, as amended.
3. Document current procedures and policies used to monitor recipients and the basis for these procedures and policies, and determine if management has considered alternative procedures.
4. Gain an understanding of and document internal controls in place over recipient monitoring procedures and policies.
5. Determine the criteria used and the bases for these criteria to determine if a recipient is providing high-quality legal services to authorized persons.
6. Determine if the grantee monitoring process adequately assesses each LSC recipient's compliance with the Act, regulations, and other applicable laws in delivering high-quality, efficient, and economical assistance to clients.
7. Identify any policies, procedures, or practices relating to the monitoring process that are inefficient or uneconomical.

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8. Determine if the monitoring process duplicates, overlaps, or conflicts with related activities.
  9. Determine the causes of any unsatisfactory performance or noted inefficient or uneconomical policies, procedures, or practices related to the monitoring process.
  10. Identify any monetary benefits to be derived from correcting unsatisfactory performance, noted inefficiencies, or uneconomical practices relating to monitoring.
  11. Identify methods or means to improve the monitoring of grant recipients.
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#### **SCOPE AND METHODOLOGY**

We conducted this performance audit between August 9, 1993, and January 14, 1994, in accordance with *Government Auditing Standards* for performance audits as defined by the Comptroller General of the United States.

Our approach to meeting these objectives encompassed two major phases: a survey phase and an audit phase.

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#### **Survey Phase**

In the survey phase, we researched, collected, and analyzed data to determine the universe of LSC compliance and performance requirements, the universe of grant recipients, and the number of grantee monitoring reports issued during the period October 1, 1991, through July 31, 1993. We reviewed the LSC Act, regulations on monitoring, grant assurances, monitoring guidelines prepared by PEAR, the Audit and Accounting Guide for Recipients and Auditors (Audit Guide), Board minutes, and numerous other legal services-related reports and publications.

We reviewed and flowcharted the monitoring process, including specific steps, procedures, and internal controls followed in pre-visit planning and preparation, on-site monitoring visits, draft report development, grantee commenting on draft reports, and issuance of final monitoring reports. We obtained and reviewed resumes of both LSC in-house and consultant monitors in order to assess their qualifications and experience. We reviewed and discussed monitor training.

We visited several grantees to discuss strengths and weaknesses of the current monitoring process, ways to improve the monitoring process, and the feasibility of peer review



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and a self-assessment certification process. We held similar discussions with senior attorneys of the Center for Law and Social Policy (CLASP) and with the former Chairman of the ABA Standing Committee on Legal Aid and Indigent Defendants (SCLAID) subcommittee that developed *Standards for the Monitoring and Evaluation of Providers of Legal Services to the Poor*.

We developed and tested procedures for estimating the cost of performing each of the monitoring and reporting phases.

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## **Audit Phase**

Based on survey phase results, the audit phase was designed to gather and analyze data to assess the feasibility of:

1. Reducing on-site monitoring visits by requiring compliance through a grantee self-assessment and certification process, coupled with attestation procedures by the grantee's IPA regarding the veracity of the grantee's certification.
2. Implementing a quality review process for assessing the more qualitative compliance requirements, primarily the requirement to provide high quality and effective legal services.
3. Realigning PEAR's mission and goals to enable it to carry out the management and oversight of a revised monitoring function.

When we presented the results of the survey to PEAR management and solicited their views, ideas, and suggestions for carrying out the audit phase, PEAR management rejected out-of-hand our survey approach and results as being biased, having a preconceived outcome, and lacking in basic understanding of or appreciation for the current monitoring process. PEAR management offered no constructive views, ideas, or suggestions regarding the thrust of our audit phase effort. As a result, we used information gathering techniques that essentially obviated the need for PEAR management's direct input.

With input from CLASP and SCLAID members, and the Executive Director, Legal Services of Northern Virginia, Inc. (who is also a participant in LSC's Comparative Demonstration Project), we designed a comprehensive questionnaire to: (1) obtain grantee evaluations of the usefulness and effectiveness of the current monitoring process, and (2) elicit a wide range of views about the above concepts of

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quality review and grantee self-assessment. The questionnaire was also reviewed within LSC by the OIG and the Project Director of the Comparative Demonstration Project.

The questionnaires were sent to 323 LSC grantees, several sub-recipients, bar associations, and others. The number of grantees responding totaled 150, for a response rate of 46.4 percent. (Five of these arrived too late to be incorporated into this report.) We tabulated these responses for further analysis and summarization to support report findings, conclusions, and recommendations. To test for bias in responses regarding the current monitoring process, we compared aggregated responses by grantees against whom LSC had issued any form of sanctions during the previous 8 years with other grantees who had received no sanctions. There were no significant differences in their responses. Responses other than by grantees and sub-recipients were not used in arriving at our conclusions, because they were not complete, only a small number responded, and they did not appear to represent a clearly definable segment of the legal services community.

We also designed and administered a questionnaire to in-house and consultant monitors to get their inputs on several aspects of the current monitoring process, including the extent to which monitoring conforms to standards promulgated by any recognized standards-setting body; the existence and reliability of PEAR's internal quality control over the monitoring procedures--including supervision, workpaper preparation and review, competence of evidential matter, and referencing process--to assure the objectivity and accuracy of monitoring reports; the presence of conditions that could impair monitors' objectivity and independence; and monitors' views on PEAR's general control environment.

To obtain statistically significant results, we randomly selected 31 grantees from a universe of 207 grantees that underwent on-site monitoring visits between October 1, 1991, and March 31, 1993--the latter date representing approximately the most recent visits for which final monitoring reports would have been issued. For the sample selected, we obtained copies of draft monitoring reports, correspondence between LSC and the grantees, grantee comments on draft reports, and final monitoring reports. From this information we noted: the number of pages in draft reports, grantee responses, and final reports; the number of recommendations made in draft and final reports; the number of recommendations to correct material deficiencies; the number of recommendations we considered weak

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or trivial, i.e., containing language such as "should consider," "should continue to," or "may wish to," (such recommendations would not be mandatory, based on the LSC Act or Regulations); the number of grantee response statements directed at correcting factual errors or misstatements of grantee program elements, neither of which related to areas needing management attention; and the number of recommendations dealing with fiscal and administrative matters which should be routinely covered in audits by IPAs.

To develop monitoring cost estimates, we used accounting data (provided by LSC's Comptroller) summarizing PEAR's expenses for FY 1993.

We obtained the distribution of PEAR staff time to the various monitoring functions and other direct cost objectives from a detailed 2-month time study conducted by PEAR in 1992.

As shown in Exhibit I-1 of Appendix I, we used the above information to calculate indirect cost rates, compute direct and indirect costs for each of the monitoring functions, and calculate the cost of current monitoring by three identifiable phases: (1) pre-visit, (2) on-site, and (3) reporting.

We obtained cost estimates from 96 grantees, also by the above three phases. They provided cost estimates for personnel, copying, telephone, and postage, for each phase of the monitoring process.<sup>10</sup>

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<sup>10</sup> The various elements discussed above, on which we based our cost estimates and calculated potential savings, were not audited by us. Therefore, some qualifications are appropriate: First, the FY 1993 expenses summary was presumed to be accurate. Second, PEAR's 2-month detailed time study was presumed to (a) accurately account for all PEAR personnel hours for the period, and (b) be reasonably representative of our audit period. Third, our methodology for developing the cost of each monitoring function could result in slight misstatements, because this methodology did not recognize probable differences in labor rates. Thus, for example, employees who produced briefing books may have been lower-paid than those who wrote and reviewed reports. If so, then the cost of briefing books in our calculation would be somewhat overstated, while the cost of reporting would be understated. Fourth, estimates provided to us by the grantees were presumed to be reasonably accurate and represent the universe of 323 grantees.

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As explained in Appendix I, we calculated an estimated or potential LSC cost savings that will result from a revised compliance monitoring structure. We first determined the annual cost to LSC of the current monitoring structure. Next, we developed estimates (based on conservative assumptions about various aspects of the process) of the annual costs to LSC of the various components of a recommended revised monitoring structure. Subtracting the estimated total annual cost to LSC of the revised monitoring process from the annual cost to LSC of the current process yields the anticipated cost savings.

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## **INTERNAL CONTROLS**

In planning and performing our evaluation of internal controls over grantee monitoring procedures and policies, we assessed PEAR's internal control structure to the extent deemed necessary to form conclusions related to audit objectives and not to provide overall assurance on either the LSC or PEAR internal control structures.

We noted certain matters involving the PEAR internal control structure and its operation related to grantee monitoring that we consider to be reportable conditions. These conditions are discussed in our report under the heading "Monitoring and Reporting Policies are Not Based on Standards" (pages 4 to 7).



*LEGAL SERVICES CORPORATION*

MEMORANDUM

TO: Edouard Quatrevaux, Inspector General *EQ*  
Office of the Inspector General

FROM: John A. Tull, Director *JAT*  
Office of Program Evaluation Analysis And Review

DATE: March 31, 1994

SUBJECT: Response to the Cotton and Company Report on the Performance Audit of the  
Grantee Monitoring Function by the Legal Services Corporation

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Thank you for the opportunity to review the findings of Cotton and Company with regard to monitoring by the Office of Program Evaluation Analysis and Review (OPEAR). As you know, the Transition Management Team has conducted its own evaluation of OPEAR and its performance of monitoring and has undertaken a substantial reorganization of the department as a result of that evaluation. Conclusions were consistent with those of the Cotton and Company and we agree with the findings in their Report.

We also agree in principle with the recommendations in the Report. In the course of the departmental reorganization, we are giving careful consideration to the recommendations and are already making substantial changes in the method and procedures used in monitoring to enhance the economy and efficiency of the process. We anticipate having a new approach to monitoring fully in place by late summer of this year. In the interim monitoring activity will take place with an eye to testing the viability of various approaches including those suggested in the Report.

